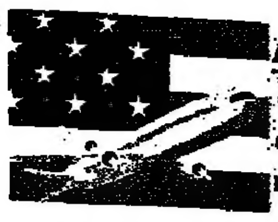

Airlines in turmoil
US carriers on the ropes
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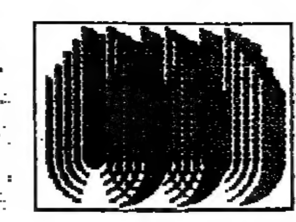

Gatt cliffhanger
Everything still up in the air
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Green investment
Profit still comes first
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Management buy-outs
Vendors put the price up
Section III

FINANCIAL TIMES

Europe's Business Newspaper — WEDNESDAY DECEMBER 8 1993 — D8523A

Brazil plans fresh effort to tackle 2,000% inflation

Brazil announced a package of economic measures, including the introduction of a new currency, in an effort to tackle annual inflation rate of about 2,000 per cent.

The package, the seventh since 1986, will be introduced gradually and won cautious backing from the government's coalition partners and economists. It is aimed at reducing Brazil's budget deficit, estimated at $22.2bn next year and seen as the main cause of inflation, and does not include "shock" measures such as price freezes that have failed in the past. Page 16

Tapie's immunity lifted: Bernard Tapie, businessmen-turned-politician, is expected to face prosecution for alleged financial irregularities after the French National Assembly voted to lift his parliamentary immunity. Page 16

Russian inflation falls: Russia announced a sharp fall in its inflation rate to 11.3 per cent in November, giving a boost to the reformist Russia's Choice party in the run-up to Sunday's parliamentary elections. Page 3; Economist's gloomy predictions, Page 3

Ivory Coast's president dies:

Africa's longest serving leader, Felix Houphouet-Boigny, president of the Ivory Coast since the country gained independence from France in 1960, died. He was officially 88, but was believed by many to have been older. A battle for succession is expected between prime minister Alassane Ouattara and parliamentary speaker Henri Konan Bedie. Page 6; Obituary, Page 6

VW restructuring plan attacked: German employers protested against Volkswagen's efforts to gain state subsidies for the introduction of shorter working hours at its six domestic factories. Page 16; West German economy grows, Page 2; Rail venture may win approval, Page 2

Southwestern Bell, the US regional telecommunications group, and Cox Enterprises, privately-owned media group, agreed a deal to form the latest US multi-media alliance. Page 17

Lonrho drops Lockerbie film: UK-based Lonrho has withdrawn its £633,000 ($943,000) support for a controversial film about the 1988 bombing of a Pan-Am aircraft over Lockerbie in Scotland, which it was co-financing with Libya. Page 23

Ex-Montedison chief charged: Rome police charged Mario Schimberni, 70-year-old former chairman of the Montedison chemicals group, with deception and illicit distribution of dividends. Page 2

RJR Nabisco, US tobacco and food group, announced it would cut 6,000 jobs from its worldwide workforce of 63,000 as part of a drive to improve productivity. Page 17

Mieno urges deregulation: Bank of Japan governor Yasushi Mieno called for further deregulation of Japan's financial markets, to help banks write off non-performing loans. Page 7

HJ Heinz slips: Currency fluctuations pushed second quarter earnings down 15 per cent at the US food products company, excluding a one-time gain for divestments, but masked the underlying strength of Heinz's brand franchises. Page 18

Air talks resume: The US and UK began a fresh round of talks in London to try to resolve a dispute over access by US airlines to London's Heathrow airport and the rights of British Airways in the US domestic market. Page 8

Lloyd's compensation offer: Lossmaking Names at Lloyd's of London appeared set to reject a £900m ($1.34bn) compensation package, offered by Lloyd's in a bid to stave off legal action following heavy underwriting losses. Page 8

Gota Bank pull out: Swedish government plans to sell Gota Bank were dealt an unexpected blow when leading commercial bank Svenska Handelsbanken pulled out of the bidding. Page 17

Late payments: UK exporters are facing increasing delays before they are paid by mainland European customers, a study has found. Page 9

Coin exchange: Passengers at London airports are to be offered a solution to the problem of what to do with small change from other countries – multi-currency exchange machines that change low denomination coins into sterling. Page 16

■ STOCK MARKET INDICES

FT-SE 100:	3237.3	(same)
Yield	3.68	
FT-SE Eurotrack 100	1389.50	(+2.13)
FT-A All-Share	1591.07	(+0.0%)
Nikkei	16903.49	(+53.11)
New York lunchtime:		
Dow Jones Ind Ave	3717.20	(+6.99)
S&P Composite	465.91	(-0.52)

■ US LUNCHTIME RATES

Federal Funds:	2¾%
3-mo Treas Bills: Yld	3.147%
Long Bond	101⅜
Yield	6.189%

■ LONDON MONEY

3-mo Interbank	5⅞%	(5¼%)
Liffe long gilt future:	Dec 118⅞	(Dec 118¾)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$13.88	(13.77)

■ Gold

New York Comex (Dec)	$377.4	(375.9)
London	$378.3	(376.6)

■ STERLING

New York lunchtime:		
$	1.494	
London:		
$	1.492	(1.499)
DM	2.545	(2.5575)
FFr	8.756	(8.785)
SFr	2.1875	(2.2025)
Y	160.5	(162.0)
£ Index	81.8	(82.0)

■ DOLLAR

New York lunchtime:		
DM	1.702	
FFr	5.8625	
SFr	1.4629	
Y	107.75	
London:		
DM	1.7055	(1.706)
FFr	5.8675	(5.86)
SFr	1.4665	(1.469)
Y	107.8	(108.15)
$ Index	66.5	(66.7)

Tokyo close Y 107.95

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45		
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00		
Czech Rp	CZK45	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta210		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20		
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00		
France	FFr9.00	Kuwait	Fils.600	Poland	Zl 32,000	Tunisia	Din1.250		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L8000		
						UAE	Dh11.00		

Franco-German alliance enters global telecoms war

By Andrew Adonis

The French and German state telecommunications companies announced a far-reaching strategic alliance yesterday, intensifying the battle between the world's leading telecoms groups to become global "super carriers".

France Telecom and Deutsche Telekom, the second and third largest international operators after AT&T of the US, will establish an Ecu1bn ($1.14bn) joint venture to provide data and other advanced services to multinational companies.

The venture will be the first stage of formal collaboration, which could lead to exchanges of equity stakes between the two state-owned companies if proposed changes to their legal status are carried through.

The heart of the alliance will be a state-of-the-art European "backbone network" providing companies with international private networks and high-capacity data communications across the continent. It will start operating in early 1995.

The companies expect their venture, to be based in Brussels, to generate revenue of Ecu1.5bn in its first year, and grow "quickly" to 4,000 employees.

Mr Marcel Roulet, chairman of France Telecom, said: "Europe needs a global player in this area and we aim to provide it."

The venture was seen by many analysts as a defensive move by the two companies in the face of alliances formed this summer by the AT&T with Asia-Pacific operators, and by British Telecommunications with MCI, AT&T's main US competitor.

Although the Franco-German alliance is clearly in opposition to BT, it has a more open attitude to AT&T, which wants to establish a relationship with a European operator other than BT.

Mr Helmut Ricke, chairman of Deutsche Telekom, said: "We absolutely need an American partner to provide a broad range of services", adding that it was "obvious" that AT&T was the best qualified. He said negotiations were proceeding.

The alliance has strong backing from the French and German governments, which are ready to resist calls from BT for competition between European operators to be introduced before the 1998 deadline agreed by the European Union in June.

The joint venture falls short of

Continued on Page 16
Background, Page 5
Editorial Comment, Page 15
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Momentum grows for world trade agreement

By Lionel Barber in Brussels and David Dodwell in Geneva

The US and the European Union yesterday lifted hopes of a successful completion of the Uruguay Round of world trade talks by settling a number of bilateral disputes and throwing negotiations open to all 116 countries in the round.

Hopes of success were raised further by European foreign ministers, who gave a provisional seal of approval to the outline US-EU deal on market access.

In a significant shift, France softened its hard-line rhetoric and indicated that it was ready to accept a bilateral pact on agriculture which includes revisions to the hotly contested Blair House accord limiting subsidised farm exports. France has consistently threatened to veto a Gatt accord unless the 1992 Blair House agreement was changed substantially.

In a move seen in Brussels as preparing French public opinion for a potential settlement, Mr Alain Juppé, foreign minister, declared: "Blair House is dead. Another agreement has succeeded Blair House."

However, diplomats in Brussels cautioned that a series of inter-European disagreements still posed a potential threat.

After all-night US-EU negotiations in Brussels, first Mr Mickey Kantor, the US trade representative, and then Sir Leon Brittan, his EU counterpart, flew to Geneva to announce that all disagreements had been settled, with the exception of US access to Europe's film and television market, and aircraft subsidies. Sir Leon was delayed because he had to report to the EU foreign ministers before departure.

But the message to Mr Peter Sutherland, director-general of Gatt, was the same: despite outstanding differences on two issues, the US-EU tariff-cutting package was ready to be put before all countries negotiating the Uruguay Round. It will be used to lever bigger tariff-cutting offers from other countries, in particular Japan, which is being pressed over financial services, leather goods and processed foods.

The scale of the package agreed emerged during briefings in Geneva at which the trade negotiators talked of EU tariff cuts to the US averaging more than 50 per cent. Products like wood and paper have joined a lengthening list of products for which tariffs have been slashed to zero. These alone are worth $5bn to US exporters, Mr Kantor said yesterday. The US has offered similar cuts to European exporters.

Big tariff cuts have been agreed on Europe's electronics sector, as well as for US glass, ceramics and textiles. Apart from modifications to the Blair House accord, the US has also agreed to add ocean shipping to its package of proposals for liberalisation of maritime services.

The two have agreed terms for opening their multi-billion procurement markets, and on a new, more powerful multilateral trade organisation which would replace Gatt and have greater authority to settle international trade disputes.

In Brussels, diplomats said a list of demands by France and other disgruntled EU member states could still sink prospects for a settlement and weaken Sir Leon's efforts to present a united European front in Geneva.

France wants to strengthen European trade weapons to match those of the US, and it is demanding a guarantee from its EU partners that French farmers do not have to make cuts in production beyond those required by the CAP reforms agreed in May 1992.

Background, Page 5

Associated Press

ANC general secretary Cyril Ramaphosa (left) and Colin Eglin, his counterpart in the Democratic party, prepare for the first meeting of the Transitional Executive Council, the first South African executive government body on which blacks and whites sit together Page 6

Delors to fight labour deregulation

By David Gardner in Brussels

Mr Jacques Delors, president of the European Commission, will tell European Union leaders at their summit starting on Friday that cutting wages and wholesale labour market deregulation are not the ways to beat the jobs crisis and strengthen Europe's competitiveness.

Cutting wages and pruning welfare payments to price Europe's unemployed into jobs would be "socially unacceptable and politically untenable", and would "only worsen the crisis by depressing domestic demand", according to the Commission white paper on growth and jobs. This strategy document, circulated yesterday to member states, is intended to be the centrepiece of the two-day Brussels summit.

The Commission's approach contrasted sharply with the call yesterday from Unice, the EU employers' confederation, for a comprehensive reduction in labour costs and the privatisation of welfare systems.

Unice's report, called "Making Europe more Competitive", is timed to gain employers a voice in the summit debate. It wants:

● To reduce Europe's high non-wage labour costs, especially social security contributions for the low paid and young workers.

● Real wage increases below rises in productivity.

● Higher wage differentials, especially by cutting minimum wages and marginal tax rates.

The Euro-employers also want relaxation of rules on working hours, easier hire-and-fire laws, lower unemployment benefit and more limited access to the social security system. In a manifesto that only the UK among the 12 would feel altogether comfortable with, Unice also wants a general roll-back of the public sector and a review of EU legislation with a view to scrapping regulation which implies costs for industry.

The central employment section of the Commission's white paper emphasises lifelong training and retraining, job-sharing and more part-time working within companies rather than as a national scheme. It envisages a big push to develop services for those seeking employment. "Unemployment benefits can only be reduced so far before the poverty line is reached," the paper says, adding: "These limits have already been reached in several countries."

A senior Commission official described the approach as "not deregulation, but readjusting regulation to fit the present situation ... social engineering that goes with the market."

The paper maintains that restored growth might deal with cyclical job losses, and advocates a big investment drive in information technology and pan-European rail, road and energy networks to raise competitiveness.

But Mr Delors and Mr Padraig Flynn, the social affairs commissioner, say structural unemployment requires government and industry to promote more employment-intensive work patterns.

Delors white paper, Page 2

Foreign operations increase Deutsche Bank profits 11%

By Christopher Parkes in Frankfurt

Deutsche Bank, Germany's largest private sector bank, yesterday reported an 11 per cent increase in operating profits to DM4.2bn ($2.46bn) in the first 10 months of 1993.

The rise, however, came exclusively from foreign operations, according to Mr Hilmar Kopper, chairman, who said the German recession had caught up with the country's banks and that its effects would continue to be felt next year.

Earnings at Deutsche's German-based parent company fell 9 per cent to DM2.36bn, largely as a result of record group-wide risk provisions of almost DM2.5bn, up 54 per cent on last year. Some 90 per cent of the provisions, which Mr Kopper expected to rise to almost DM3bn for the full year, were to cover risks within Germany.

The cyclical and structural crisis had made a serious impact on the creditworthiness and income of Deutsche's domestic customers, Mr Kopper warned. "As the house bank to thousands of small and medium-sized companies, we are feeling the effects of this," he said. The bottom of the industrial recession had been reached, he added, "but the bad news is that we will stay quite a while at this low point".

Deutsche holds 10 per cent or more of the equity of 25 leading non-banking companies, worth almost DM24bn, according to details released for the first time yesterday.

These holdings include 10.65 per cent in Metallgesellschaft, the metals, mining and engineering group, which this week negotiated new credit lines with Deutsche and Dresdner Bank to help it meet margin requirements for hedge positions in oil future contracts taken out by a US subsidiary.

Mr Kopper said Deutsche stood by Metallgesellschaft and saw its difficulties as a technical, short-term liquidity issue and not a matter of survival.

In a robust rejection of media criticism of German banks' continuing healthy earnings growth while industry suffered, Mr Kopper said profits were needed as

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CONTENTS

W German economy grows 0.5%

By Quentin Peel in Bonn

The west German economy grew by a real 0.5 per cent in the third quarter, compared with the previous three months, confirming signs of stabilisation after the sharpest downturn since the second world war.

Latest federal figures show a positive growth rate for the past two quarters – there was a similar 0.5 per cent rise in the second quarter – although overall economic activity remains below 1992 levels.

The statistics were published as wage negotiations opened for Germany's 4m-strong engineering workers, with a clear stand-off between employers' demand for a pay freeze and the IG Metall union's goal of 5.5-6 per cent. However, the union is under great pressure to agree a moderate settlement as unemployment rises steadily – by 489,000 in the past year – in spite of indications that the economic slump has bottomed out.

Mr Günter Rexrodt, latest ics minister, greeted the statis gross domestication that the tics as gradually recover- econcrvate sector economists remain more cautious, while accepting that the figures indicate a clear stabilisation.

"It is certainly too early to say this is the beginning of an upswing, but it does show that the worst is behind us," said Mr Peter Pietsch, chief economist at Commerzbank.

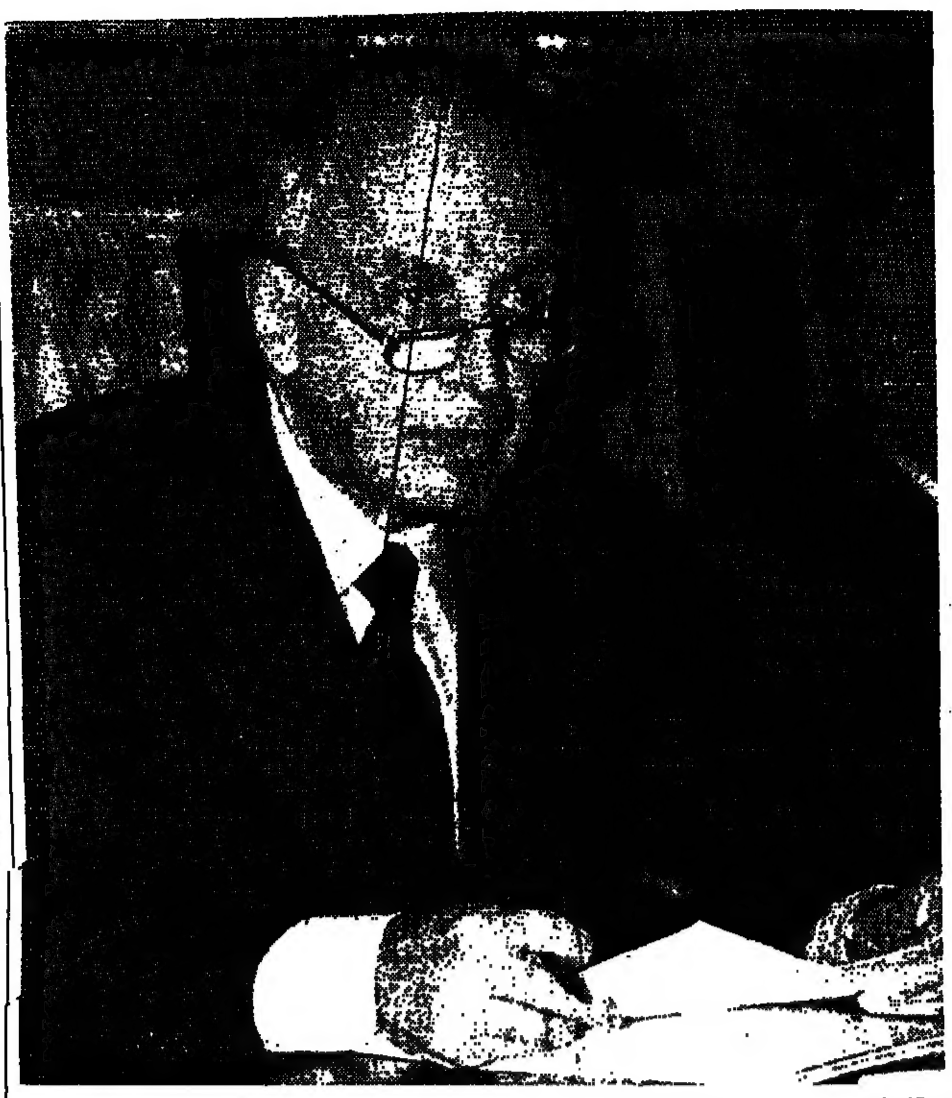
The main factors behind the stabilisation are growth of private consumer spending, and continued expansion in the construction sector. The former was up 0.3 per cent on the same quarter in 1992, and building activity 1.8 per cent.

Mr Rexrodt pointed out that comparing the third quarter with the previous three months, all elements of domestic demand, with the exception of public sector consumption, had picked up. This included investment in equipment, which had slumped by almost 20 per cent over the five previous quarters.

Mr Pietsch warned that January 1 would see the introduction of a whole range of new burdens affecting both consumer spending and industrial costs, among them higher oil taxation, pensions contributions, car insurance premiums, and nursing care insurance totalling an annual DM[illegible] (£15.8bn).

"All those burdens will hold back recovery," he said. "Private consumption has been resilient during the downturn compared with previous recessions. Consumers are attempting to maintain their spending at the expense of saving. But next year all these extra burdens will affect consumer spending."

The economic squeeze on labour and industry will dominate the engineering industry negotiations, which opened yesterday in both Bavaria and North Rhine-Westphalia. In addition to a pay rise, IG Metall wants assurances of job security. The employers are adamant that real cost cuts are needed and have also served notice of cancellation of their holiday pay agreements. Yesterday they announced they wanted to reduce the holiday bonus by half a month's pay.



Mr Mario Schimberni: charged with deception and illicit distribution of dividends

Associated Press

Ex-Montedison chairman held by Rome police

By Robert Graham in Rome

Police in Rome arrested Mr Mario Schimberni, 70-year-old former chairman of the Montedison chemicals group, early yesterday and charged him with deception and illicit distribution of dividends.

One of the most high-profile business figures in the late-1970s and the 1980s, Mr Schimberni was forced from the chairmanship of Montedison in 1987 when the Ferruzzi family, led by the late Mr Raul Gardini, took control.

His arrest is part of the ever expanding investigations by Milan magistrates into Montedison's affairs. The group was used first by Mr Gardini and then by other Ferruzzi family members to make illicit payments to political parties and to syphon funds into Ferruzzi overseas bank accounts.

The significance of the latest move is that the magistrates now appear to be examining Montedison's books in the period before Mr Gardini assumed full control.

According to usually reliable leaks from Milan magistrates, the charges relate to the period 1984-86. The magistrates are attempting to trace some L500bn (£203m) removed from Montedison's books and transferred to accounts in the Netherlands Antilles.

There has been no previous mention of such a sum being missing so far back in Montedison's accounts. Indeed, this is the largest single sum discovered to be missing.

According to Ansa, the national news agency, investigations into Mr Schimberni followed the discovery by Mr Guido Rossi, current administrator of Ferruzzi-Montedison, of documents prepared by Mr Gardini. Further arrests are expected.

Mr Schimberni, who was granted house arrest because of his age, was the protagonist in some of the most controversial takeovers of the past decade, including that of the Bonomi family's financial holding, Bi-Invest.

● Milan police yesterday arrested Mr Alessandro Patelli, former treasurer of the populist Northern League, on charges of violating party financing laws. This is the first time the League has been implicated in the corruption scandals.

EU seeks to open up postal services

By Andrew Hill in Brussels

Telecommunications ministers of the European Union yesterday called for formal legislation to open up European postal services to competition, while safeguarding common service standards for all customers.

The ministers asked the European Commission to produce draft legislation before July next year, but they steered clear of the sensitive subject of which postal services should be protected from competition.

They said the Commission should come up with a definition of these "reserved" services, which could include basic domestic letter services.

Ministers also sidestepped the issue of exactly what should constitute a basic minimum telephone service after 1998, when the EU telecoms sector is completely liberalised.

Preparatory discussions between national officials had revealed sharp differences of opinion between member states, such as Britain, which wanted competition to be introduced into most sectors of the market, and others which wanted to draw up a wider list of universal services to which all customers have a right.

A compromise resolution approved yesterday will include a list of minimum services already defined in other EU telecoms legislation. The actual services supplied as a right to customers will be defined by the governments themselves. The resolution says consumers will be entitled to "a defined minimum service of specified quality ... and, in the light of specific national conditions, at a reasonable price".

Separately, ministers threw their weight behind a group of television manufacturers, broadcasters and satellite operators who are working on new standards for digital television broadcasts in the EU.

Ministers yesterday said common digital broadcasting standards were essential to the development of the new technology, which promises more channels and greater flexibility for consumers. But they said digital television would be "market-led".

The group was formed by the German Telecoms Ministry in the aftermath of the débâcle over the Commission's original *plans for the development of* analogue high-definition television, which foundered when broadcasters did not follow the transmission standards laid down by the member states.

The EU strategy – watered down in the face of opposition from the UK to extensive funding – is now based on the encouragement of wide-screen television programmes and transmissions. References to set satellite transmission standards will be excised from an earlier directive.

EU urged to catch up with the world

David Gardner on the Delors White Paper for the 21st century

When European Union heads of government meet for their summit in Brussels on Friday they will be told that the creation of their single market has gone a long way towards resolving the Twelve's competitiveness problems, but "the truth is that although we have changed, the world has changed faster".

As a result, European Commission president Mr Jacques Delors, in a much-vaunted White Paper on competitiveness, growth and unemployment, calls for far-reaching changes to catch up. But he warns: "If there were a miracle cure, it would not have gone unnoticed."

Indeed, the paper starts from the premise that Europe is facing an economic and social crisis, of which unemployment is a main feature.

The Commission wants big changes in employment policy and a European "social pact" whereby gains in productivity would be ploughed into new investment and the creation of jobs.

It also wants the EU to act as the catalyst for a big investment programme in advanced telecommunications and information systems, and rail, road and energy networks across Europe.

With unemployment expected to reach 20m next year, "the EU should aim to create 15m jobs by the end of the century," the document says.

The framework for creating jobs and improving competitiveness, the document underlines, must remain an open economy, trading within solid multilateral rules after a successful Uruguay Round world trade reform deal, and monetary stability, low inflation and gradually reduced budget deficits, to make possible economic and monetary union and a single European currency.

But the White Paper, titled Tackling the Challenges and Moving into the 21st Century, makes clear its main target is unemployment, while emphasising that it is offering only broad guidelines for a complex problem offering no quick fixes.

There is, one senior Commission official says, "an ideological debate between those who believe the [labour] market will clear if you just remove a few obstacles, and those who believe this is a huge economic and social problem" requiring government intervention, albeit by following the trend of the market.

On the basis of the final draft, however, the latter views, identified with Mr Delors and Mr Padraig Flynn, the social affairs commissioner, appear to be winning out. But the paper could face a rough ride at the summit.

The UK, echoed by Unice, the EU employers' confederation which yesterday produced its own competitiveness blueprint, is pushing hard for labour market deregulation and reduced employment costs. Germany, moreover, as the EU's main paymaster, may balk at the sums in the paper for funding trans-European networks.

The White Paper rejects wage-cutting and pruning of welfare payments as only likely to depress demand further, but also dismisses "a generalised reduction in working hours and job-sharing at national level" which could slow down production.

The White Paper's diagnosis is familiar from earlier drafts. Over the past 20 years, unemployment has steadily risen from cycle to cycle, as the European economy's potential growth rate has shrunk from around 4 per cent to 2.5 per cent, the investment ratio has fallen by five percentage points of gross domestic product and Europe has done worse than the US and Japan on jobs, preserving export markets, matching research and development to the market and developing new products.

Notably, the EU is failing to harness the growth potential in eastern Europe, and is too slow in responding to "an increasingly knowledge-based" economy.

The document identifies three kinds of unemployment requiring different treatment: cyclical unemployment, caused by low growth; structural unemployment, perhaps two thirds of the total, caused by competition from low-wage economies, the high cost of unskilled labour, deficient training and over-protection of "traditional industries" in decline; and job losses caused by failure to adapt to the speed of technological change. Growth alone, the document argues, would deal only with the first category.

It therefore advocates:

- Advanced vocational training throughout people's working lives.
- Labour market flexibility through retraining, flexible working hours, measures to revive the rented housing market to stimulate labour mobility, and (more gingerly) pricing people into work through unemployment benefit cuts, but accompanied by minimum income guarantees.
- *Part-time working and job-sharing at* company level, in which companies such as car maker BMW at Regensburger in Bavaria have shown can enhance use of plant.
- Reducing the cost of low-skilled labour by cutting social security contributions on their jobs, to be financed partly by greater tax revenue from the resultant expansion of employment. The paper also suggests that the energy tax now blocked in the Council of Ministers and revenue from another proposal to harmonise taxes on investment could also make up the difference.
- Re-channeling more public spending on unemployment towards "active" labour market measures, including a big expansion of employment services for job-seekers.
- A subsidised expansion of "social" services in areas such as environmental protection, housing renovation and community care.

Officials underline that the trans-European networks programme is not a public works proposal to create jobs, but a plan to make Europe more competitive. A labour market strategy to create jobs is therefore essential.

"Recovery must be achieved principally by developing work and employment and not by going for basically Malthusian solutions" which would create a divided society, the White Paper concludes.

Paper calls for big new investments in 'info-highways' and infrastructure

One of the main causes of Europe's decline in competitiveness is the slowdown in infrastructure investment of the past 10 years, according to the Delors White Paper, writes David Gardner.

The challenges involved in moving into the 21st century therefore involve big new investment in the "information highways" of the new industrial revolution, and in pan-European transport, energy and environmental infrastructure, it says.

Developing an advanced information society and economy, the paper says, in a characteristically Delors turn of phrase, "is a crucial aspect in the survival or decline of Europe".

The development of new information technology, the White Paper envisages, would be financed almost entirely by private capital, while the transport *and energy networks would be* financed by a mix of public and private funding. In both cases, the EU and member states would play an enabling and catalytic role, and the White Paper emphasises that deregulation of the telecommunications sector is vital.

The Commission also wants the EU to encourage inter-company co-operation on research and development, in "a limited number of major joint projects", not only in information networks, but in bio-technology and eco-technologies.

The Commission proposes EU financing of about Ecu20bn (£15bn) a year between 1994 and 1999. About Ecu5.3bn would come from the EU budget and Ecu6.7bn would be in loans from the European Investment Bank. But a further Ecu7bn could be raised, the paper says, by issuing "Union Bonds" on the capital markets, taking advantage of the EU's high credit rating. The balance would come from a further new instrument, a "convertible" bond issued by a company funding a project, backed by the European Investment Fund, set up a year ago.

The information technology drive, the White Paper estimates, would cost some Ecu150bn over the next 10 years, and Ecu67bn in 1994-99 for eight "priority" projects.

The White Paper specifies areas where the effort should be concentrated, such as developing a high-speed communications network. *But Mr Delors wants a "Task Force* on European Information Infrastructures" to be set up, with a mandate from the Twelve to kick-start the projects by mid-1994.

The Commission, as envisaged under the Maastricht treaty, would play a more leading role on transport and energy infrastructure. The White Paper reckons Ecu250bn investment is needed by the end of the century, mainly in rail, road, airport and gas pipeline infrastructure, building links within Europe and to its eastern and southern neighbours. Eight projects requiring Ecu95bn in 1994-99 are identified as priorities.

Transrapid rail venture set for the green light

By Quentin Peel in Bonn

The German government is set to give tentative approval today to the revolutionary Transrapid magnetic hover-train, intended to travel between Hamburg and Berlin at 400km an hour.

New proposals submitted by the private-sector consortium backing the project, involving Thyssen, Siemens and AEG, will increase private participation and reduce the public sector risk exposure.

A final decision by the government on its backing for the project will be taken only next year, according to Mr Matthias Wissmann, the transport minister and one of the plan's most enthusiastic supporters.

By then it will have to meet with the approval of Mr Theo Waigel, the finance minister, who has criticised the consortium's previous proposals as too risky.

The plan to be presented to the cabinet today involves a private arrangement to run the Transrapid operations, but public-sector financing for the rail line.

The new trains – nicknamed the "whispering arrow" – are intended to run every 10 minutes between the two cities and reduce the current 3½-hour journey time to just one hour.

The plan is to begin construction in 1996 and start running test trains by 2003.

The operating company, in which Lufthansa and the future independent German railways would have stakes, would have an equity capital of some DM1.5bn (£586m) and raise loans amounting to some DM3.3bn without any government guarantees.

The rail line would cost DM8.2bn, including debt servicing and inflation, the consortium estimates.

The plan has widespread backing in the German political establishment, as a vital project to confirm Germany's leadership in transport technology.

Both government and opposition remain divided, however, on the project's economic viability.

Mr Uwe Jens, the economic spokesman for the opposition Social Democratic party, yesterday gave the scheme his blessing for its contribution to research and development.

However, the party's transport spokesman, Mr Klaus Daubertshauser, warned that it could be "an incalculable financial risk".

He suggested the test track should be built outside Germany, rather than within the country, at the expense of the taxpayer.

Swiss ease rules on buying homes

By Ian Rodger in Zurich

Buying and selling Swiss property will become much easier for foreigners if a plan approved by the federal cabinet this week wins acceptance.

It would enlarge the number of holiday homes which can be sold to non-nationals each year and eliminate curbs on foreign residents buying property for their own use.

There is no plan to ease restrictions on property purchases by foreigners for investment. This means that some Swiss companies, such as insurance companies, which invest widely in property, will want to continue regulating the number of their shares held by non-Swiss.

The proposals are less drastic than would have been forced on Switzerland had it joined the European Economic Area, the free trade pact between the European Union and European Free Trade Association. Swiss voters vetoed EEA membership in a referendum a year ago, but hard pressed holiday property developers have been pressing for the Lex Friedrich law curbing foreign ownership to be changed.

The plan calls for replacing the criterion of nationality with that of place of residence. A foreigner living in Switzerland or one who had lived in Switzerland in the past for at least five years would no longer face restrictions.

For others, the principle of a continually declining national quota for sales of holiday homes would be abolished, and the quota would rise from 1,420 permits a year to the maximum 2,000 allowed by the Lex Friedrich.

Distress sales or sales by one foreigner to another would no longer be counted against the quota. Nor would purchases of time-share premises up to 16 weeks.

Call for pension funds to back IT research

By Gillian Tett

A joint technology, transport and telecommunications infrastructure is urgently needed for European recovery, a report by the Federal Trust, the pro-European integration British think-tank, claimed yesterday.

The report, issued on the back of the recent white paper on European economic renewal by Mr Jacques Delors, European Commission president, argues that Europe's fragmented infrastructure, with 12 different transport and telecommunications networks, is undermining the single market, and Europe's competitiveness with more unified regions like the US.

Though Europe has more than a quarter of world gross domestic product, it has only only a tenth of the world's information technology production, the report says. Since individual nation states are unable to provide the necessary investment on their own, joint action is imperative.

The trust proposes that private pension funds become a key source of the necessary investment. According to Mr Graham Bishop, vice-president of Saloman Brothers International, these are expanding rapidly and could create a pool of financial assets in excess of Ecu6,000bn ($6,840bn) in the foreseeable future – 15 times member states' current foreign exchange reserves.

But as Mr Jonathon Hoffman, economics director at Credit Suisse First Boston, points out, a new EC pension funds directive is urgently needed to allow this type of cross-border investment.

Meanwhile, soaring levels of national debt, twice as high as current published figures if unfunded liabilities are taken into consideration, threaten to be a key problem hampering growth, Mr Hoffman says.

Brussels hits back over steel criticism

By Andrew Baxter in London and Reuter

The European Commission hit back swiftly yesterday after seven of Europe's biggest steel producers criticised its year-long efforts to restructure the sector, saying the industry itself was responsible for excess production.

In an open letter to industry ministers on Monday, the companies from six northern European countries had complained of "totally inadequate" progress by the Commission. They warned against reaching solutions "at any price" to the deadlock over state subsidies.

In response Mr Martin Bangemann, industry commissioner, and Mr Karel Van Miert, competition commissioner, said in a joint statement: "It's not the Commission but the whole steel sector that is responsible for current production overcapacities." Companies had not made one concrete offer to cut capacity despite the Commission's decision to authorise a restructuring fund backed by EC loans.

Brussels' efforts to slash overcapacity and rein in state subsidies efforts have been blocked by the inability of ministers to agree on steel subsidy plans in Italy, Germany and Spain.

The two commissioners pointed out that the need for unanimous backing for subsidy decisions put the Commission in an "extremely delicate situation", but it had managed nevertheless to win deep capacity cuts in most cases.

It said parties interested in resolving the steel crisis should resist putting off decisions until the last minute or risk aggravating a situation with "catastrophic economic and social consequences".

The Commission's steel rescue plan aims to entice steelmakers to close some 30m tonnes of excess crude steel capacity in exchange for European Union money to help cover at least 50,000 job losses, import restrictions and other assistance. Italy's refusal to accept the Commission's demands for capacity cuts at Ilva, the loss-making state steelmaker, in exchange for approval of state aid is the main stumbling block to a overall deal on subsidies.

But Mr Van Miert said on Monday he was close to a solution, but gave no details.

Sanctions hit hard in Yugoslavia

Yugoslavia yesterday told the United Nations that sanctions imposed 18 months ago had had a devastating effect on its economy, causing losses so far of more than $20bn, Reuter reports from New York.

In a letter to Mr Boutros Boutros Ghali, the UN secretary-general, it said the economy of the rump Yugoslavia had declined to 1960 levels. By the end of this year, per capita income would amount to between $300 and $250, with a further downward trend if the sanctions persisted in 1994, it said.

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Inflation fall is boost for Yeltsin men

By Leyla Boulton in Moscow

ELECTIONS IN RUSSIA

The Russian government yesterday announced a significant fall in the inflation rate, giving a boost to Russia's Choice, the electoral alliance set up by radical ministers, in the run-up to Sunday's parliamentary elections.

Inflation, the main gauge of success of unpopular financial austerity measures, was reported to be down to 11.3 per cent in November from 20 per cent in October. Mr Sergei Vasiliev, head of the government's economic reform centre, said it was a triumph for a much-criticised tightening of fiscal and monetary policy over the past six months.

Mr Boris Fyodorov, the finance minister, who says his campaigning for Russia's Choice consists of keeping a close watch on the country's financial health, promised that 1994 would be "a year of investment and restructuring".

In the charged week before the elections, any economic developments are being exploited to the full by Russian politicians.

By the same token, the deputy prime minister, Mr Alexander Shokhin, who is responsible for foreign economic relations but running for a different party, confirmed that President Boris Yeltsin would fly to Brussels today to sign a political declaration with European Union leaders. The political declaration, which puts Russia on the same footing as the US and Japan as a political partner for the EU, also sets out the principles of a more concrete partnership agreement to be signed next year.

Denying that the trip would serve as a public relations boost for Mr Yeltsin before the elections, Mr Shokhin said that "on the contrary it would help strengthen the image of Europe" which had taken a long time to recognise the progress made by Russia towards a market economy. But he admitted that Russia and the EU were still at loggerheads over restrictions imposed by President Yeltsin on western banks to win support for Russia's Choice from powerful Russian banks.

The restrictions, barring western banks already licensed to do business in Russia from dealing with Russian customers, have sparked a fierce protest by the European Commission which says they go against the spirit of the draft partnership agreement.

Reuter

A campaign worker puts up an election poster for independent candidate Anatoli Guskov in the village of Popovka, 50km from Moscow. But television remains the main means of reaching voters, although a recent survey had 51 per cent of viewers saying party broadcasts had not influenced them in any way

Russian prophecy of doom

A top regional reformer sees trouble ahead, writes Chrystia Freeland

The following gloomy prediction is not the pre-election bombast of the communists, but the prophecy of Mr Boris Nemtsov, one of Russia's ground-breaking economic reformers and a candidate in this weekend's parliamentary elections. "Unfortunately the next year in Russia will be a year of tremendous inflation, unemployment, strikes, factory closures and very acute political conflicts. I see nothing good in the future."

Mr Nemtsov is the 35-year-old governor of the Nizhny Novgorod region, about 400km east of Moscow. His reformist credentials are impeccable. Until two years ago, under its Soviet name of Gorky, the region was a closed centre for the defence industry and the bleak site of Dr Andrei Sakharov's exile. Under Mr Nemtsov's leadership, it has become a flagship for economic reform.

"Mr Nemtsov's record speaks for itself," says Mr Anthony Doran, manager of the European division of the International Finance Corporation, the private sector arm of the World Bank. The region's 100 per cent backing for reform was what led the IFC to pilot its small-scale privatisation programme in Nizhny Novgorod. Since then, the region has privatised between 65 and 70 per cent of its small businesses, auctioned off 1,000 trucks, and "created a demonstration effect for all of Russia", says Mr Doran.

Last month, Nizhny Novgorod launched a project to privatise land, a contentious issue in Russia where even in Tsarist times most agricultural land was farmed communally. Its first privatised farm is now receiving an average of 30 visitors a day from all over the former Soviet Union who are eager to duplicate the process.

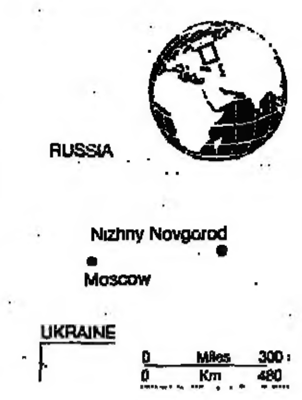
Thus, Mr Nemtsov's acerbic attack on President Boris Yeltsin's economic policies – together with his criticism of the president's draft constitution for concentrating too much power in the hands of one man and his distress at the way in which Mr Yeltsin handled the confrontation with parliament in October – indicates an election more complex than a stand-off between reformers and conservatives.

Instead, a contest is taking shape between different brands of reform, in which regional leaders, with their hands-on experience, are advocating policies at odds with those of Moscow's free marketeers.

Mr Nemtsov is highly critical of Mr Yegor Gaidar, the intellectual force behind the Russian government's tight fiscal and monetary policies, and the leader of Russia's Choice, the most reform-minded of the 13 parties competing for seats in this weekend's elections.

"Let's write a letter to Gaidar and tell him what a cretin he is – he is killing Russian business," Mr Nemtsov says, sitting behind a desk on which a photograph of the governor together with former British Prime Minister Margaret Thatcher is wedged between a computer and recent issues of The Economist.

The burden of Mr Nemtsov's discontent is his belief that,



while privatisation should be pushed forward, the government's macro-economic policy of restricting credits to the country's inefficient heavy industries threatens to destroy Russia's economy.

Mr Nemtsov cites the local example of GAZ, one of Russia's leading automobile manufacturers, which employs a quarter of Nizhny Novgorod's working population. Tight credits have pushed GAZ to the brink of bankruptcy, but instead of restructuring, the plant is on a four-day week and threatening to lay off 20,000 workers – a move which in one fell swoop could erode the strong public support for reforms in the region.

It could also send Mr Nemtsov plummeting from his current 78 per cent approval rating in opinion polls.

"[Boris] Fyodorov [the minister of finance] and Gaidar's tight fiscal policy is doomed," says Mr Nemtsov, a former theoretical physicist whose conversation is peppered with references to "the idiot Gaidar". "They (Fyodorov and Gaidar) think that if we stop giving the large factories soft credits they will begin structural reforms. In fact, the contrary is occurring – factories are raising prices and decreasing their production," Mr Nemtsov explains. "They are not doing so because they are evil communists, but because they are monopoly producers."

Mr Nemtsov, whose views are shared by some other reformist regional leaders, believes his disagreement with Mr Gaidar is not purely ideological. Instead, he contends that Mr Gaidar has been "bought off by Moscow bankers", who are profiting from the very policies which are hurting heavy industry, and cites the recent restrictions on foreign banks as evidence of Mr Gaidar's dependence upon the financial lobby.

As an alternative, Mr Nemtsov favours the slower pace of reforms advocated by Mr Grigory Yavlinsky, who was instrumental in drafting Nizhny Novgorod's regional reform programme and is the leader of the "Yabloko" bloc.

Mr Nemtsov is in favour of lower interest rates, tax holidays and "controlled inflation".

Critics of Mr Nemtsov's ilk might not cut too deeply into the vote for Russia's Choice, but they could form a chorus which will pose a more serious challenge to Mr Gaidar's market economics than the shriller cries of the extremist parties.

GM nears final deal on joint venture in Poland

By Kevin Done, Motor Industry Correspondent

General Motors Europe is expected to reach final agreement next week to begin assembling cars in Poland.

GM is planning to form a joint venture with FSO, the Polish state-owned carmaker, to assemble the Opel Astra small family car in part of the FSO plant in Warsaw.

In the first stage of the project GM is aiming to assemble annually up to 10,000 four-door Opel Astras from SKD (semi knocked-down) kits supplied from its plants in west Europe.

GM will send painted car bodies from its assembly plant in Antwerp, Belgium, for final trim and assembly in Warsaw.

Main components such as engines and transmissions will be supplied from its plant in Bochum, Germany. Production is expected to start in the autumn of next year.

In this initial stage of the venture GM is expected to invest about $25m (£16.7m). It will take a stake of around 70 per cent in the venture, which is likely to have a workforce of around 250.

Under its terms, which have been under negotiation for more than two years, GM envisages moving later to a more ambitious second stage in which cars would be assembled from CKD (completely knocked down) kits, which would require body welding and painting to be carried out in Poland. Output for the second stage could be increased to 35,000 cars a year on three shifts with a workforce of around 1,000. The second stage would increase total investment in the project to around $80m.

As part of the planned co-operation GM would aim to take part in developing the automotive components supply industry in Poland.

The company announced yesterday that ACG, the GM group's automotive components subsidiary, had signed a memorandum of understanding with FSO and its affiliate ZEM-ELK to set up a feasibility study into the establishment of ventures in such component areas such as wiring harnesses, lighting, metal and plastic components.

Czech trade surplus forces effective devaluation

Slovak currency setback

By Patrick Blum in Vienna

The Czech and Slovak republics have re-adjusted their currencies under their Ecu-based clearing agreement, leading to an effective 8 per cent devaluation of the Slovak crown against the Czech currency for trade between the two countries.

The adjustment does not affect the value of the two crowns against other currencies but the change is important for domestic and international companies operating in both halves of the now divided former Czechoslovakia.

Over the first nine months of the year Czech exports to Slovakia were CzK54.37bn (£1.2bn) while Slovakia exported goods worth CzK47.54bn to the Czech republic.

The change was made necessary by the rise in the Czech Republic's surplus in the clearing balance to Ecu110m (£83.8m), close to an agreed limit of Ecu130m, Mr Martin Svehla, spokesman for the Czech national bank said yesterday.

In practice it means the Slovak crown, which was devalued by 10 per cent against all currencies in July, has lost 18 per cent of its value against the Czech crown since the start of the year. The move is expected to slow Czech exports to Slovakia and boost Slovak exports to the Czech Republic.

■ The Slovak state secretary of privatisation, Mr Ivan Lexa, has been charged with defaming the presidency, a government official said yesterday, Reuter reports from Bratislava.

Mr Lexa, an ally of the prime minister, Mr Vladimir Meciar, suggested in November that aides close to the president were involved in illicit business, said Mr Jaroslav Ivor, an interior ministry official.

Mr Lexa could face two years in prison for the remarks.

Sharp rise in French company failures

By John Ridding in Paris

The number of French company failures increased sharply in October, rising to 5,629 from 4,177 in September, according to Insee, the national statistics office.

The figures demonstrate the continued fragility of the French economy, despite government claims that the worst of the downturn is over and that recovery will start from the end of the year.

The number of business casualties in October, the highest for five months, means that more than 62,000 companies failed in the 12 months to the end of that month. This represents a rise of 9.9 per cent over the same period in 1991-1992.

Industrial companies, and particularly manufacturers of consumer goods, were among the worst hit in October, along with hotels, cafés and restaurants. Government officials said that an increase in the rate of business failures often occurred at the end of a recession and that measures were being implemented to aid small businesses.

Earlier this week, Mr Edmond Alphandéry, the economy minister, announced increased financial support for struggling small businesses. He said that CEPME, a body specialising in equipment financing for small companies, would receive FFr200m (£23m) to extend in loan guarantees. Mr Alphandéry also urged commercial banks to follow the central bank in reducing the cost of credit.

US reveals 200 secret nuclear tests

By George Graham in Washington

The US admitted yesterday it had concealed more than 200 nuclear tests since 1945 for fear of giving information to the Soviet Union.

Mrs Hazel O'Leary, the energy secretary, said yesterday the US had conducted 925 nuclear tests between 1945 and 1990, including 204 previously undisclosed.

Mrs O'Leary said the announcement was "a foot in the tub" for the energy department's plan to release far more information about its activities and restore public trust in the agency for the important debate about where and how to store nuclear waste. "We were shrouded and clouded in an atmosphere of secrecy. And I would even take a step further – I would call it repression," Mrs O'Leary said yesterday.

Among the information emerging yesterday on the nuclear programme, Mrs O'Leary said the US had used 98 tons of plutonium in weapons production between 1945 and 1988, and that plutonium inventories at US nuclear weapons production sites now totalled 33.5 tons.

"This informs everyone as we begin to grapple with the problem in a very public way of the ultimate disposition of plutonium in the United States," Mrs O'Leary said.

Mrs O'Leary: lifting the shrouds of secrecy

The energy department also declassified much of its information surrounding inertial confinement fusion research, as well as data on mercury releases at the Oakridge plant in Tennessee.

Mrs O'Leary said the department was reviewing 32m pages for possible release. The secrecy dates from the Manhattan Project, during which scientists built the atom bomb that devastated the Japanese cities of Hiroshima and Nagasaki at the end of World War Two.

Mr Christopher Paine, a nuclear weapons expert at the private Natural Resources Defence Council, said the number of previously secret weapons tests was larger than had been estimated by specialists.

The government said 36 of the secret tests accidentally sent small quantities of radioactive gas into the atmosphere, but there was "no lasting environmental impact, even in the immediate areas of the tests".

● About 1,600 pounds (725 kg) of radioactive plutonium missing from the Rocky Flats nuclear weapons plant in Colorado has been found buried at a federal site in eastern Idaho, a Seattle newspaper reported, Reuter adds from Seattle.

The Department of Energy acknowledged "a discrepancy in records" accounting for the missing plutonium, the Seattle Post-Intelligencer said.

Idaho Governor Cecil Andrus said he is "gravely concerned" about the plutonium, buried over several acres at the Idaho National Engineering Laboratory. The buried plutonium is in particles, on contaminated tools and clothing and in sludge form, the newspaper said.

Department of Energy officials say that despite the accounting mistake there was never any danger that the plutonium could have found its way into the wrong hands.

Pentagon to plan for new foes

By George Graham

The US is to change its military planning, equipment and intelligence to deal with the likelihood that, even after the demise of the Warsaw Pact, its future enemies are likely to possess some form of chemical, biological or nuclear weapon.

Mr Les Aspin, the secretary of defence, said new measures were needed because "a policy of prevention through denial won't be enough to cope with the potential of tomorrow's proliferators".

The military services have been asked to examine their equipment programmes and shift money toward better ways of tracking mobile missile launchers, improving bomb penetration to attack buried weapons sites and developing detectors and suits to guard against chemical or biological attack. Theatre missile defence systems will also be a priority.

These new counter-proliferation measures could cost hundreds of millions of dollars, and a senior defence official said budget realities meant money would come from other defence programmes.

US intelligence efforts will be shifted to gather more information that the armed forces might need to help protect themselves against weapons of mass destruction in future regional wars. The number of military personnel in the CIA's non-proliferation centre will be tripled.

While US forces have always been prepared for a Warsaw Pact enemy in Europe who possessed both nuclear and chemical weapons, military planning for smaller regional conflicts has largely ignored such weapons of mass destruction.

But Pentagon officials say that Iraq possessed chemical weapons, even if it did not use them against the US and its allies in Desert Storm, and that virtually every other country that might be a likely enemy in the near future is at least dabbling in such programmes.

A senior defence official said yesterday:"They are one of the few things that could stand in the way of the successful application of our conventional military force."

The US preference, he said, was not to respond to another country's weapons of mass destruction by using its own special weapons.

González bid to ease EU strains

By Jurek Martin in Washington

A clearer European identity in defence policy and a European economic recovery would do much to ease strains in relationships with the US, Spain's premier Felipe González said yesterday.

Speaking after a White House session with President Bill Clinton on Monday, he identified the Nato summit in Brussels next month and the extra steps to European monetary union due to take effect on January 1 as important markers in this process.

"We are still unsure if co-ordinated policies can lower European interest rates," he said. "But lowering them, together with a Gatt agreement, is of most interest to the US because a European economic recovery is in the American interest."

Mr González thought Mr Warren Christopher, US secretary of state, had "exaggerated" last week in warning of the deleterious effects on Nato of a failure to reach a Gatt agreement.

He felt the already evident US economic recovery would remove some of the broader US concerns, as would a future European rebound. But he conceded that it was proving difficult to define policies to deal with what he called "the new world disorder".

On Bosnia, the prime minister thought the US was right in being "cautious" about committing troops to enforce a settlement. But he noted the growth in public support in Spain, from less than 40 per cent to over 70 per cent, for humanitarian peacekeeping operations there.

He took consolation in certain political paradoxes: that the current Italian government might be the weakest in Europe but still had a better chance to institute necessary domestic reforms than any in the past 10 years.

Concerning Cuba, he stressed the Spanish preference for ending the economic embargo.

Haiti could suffer army power struggle

Low on fuel and unsure where the next paycheck is coming from, the Haitian army is facing a crisis which diplomats said yesterday could mean a power struggle between the military and right-wing groups, Reuter reports from Port au Prince.

Army-backed groups such as the Front for the Advancement and Progress of Haiti (FRAPH) are expanding their operations, threatening rank-and-file military men who see their power being eroded, said one western diplomat.

That might help push the army back to the negotiating table after weeks of the military thwarting a United Nations-brokered plan to restore ousted President Jean-Bertrand Aristide to power, experts said.

Haiti Prime Minister Robert Malval was to meet UN officials in New York yesterday and then fly to Rome to seek the Vatican's support for a new initiative.

Mr Malval said on Monday he would hold a national meeting as early as next week to bring various national and business leaders together to negotiate a solution to the crisis.

Politicians put poor on top of the agenda, writes David Pilling

Chile finds growth fights poverty

From La Pintana, a desperately poor municipality in south Santiago, the Chilean economic miracle seems worlds away. Most of La Pintana's inhabitants, many forcibly relocated from more prosperous neighbourhoods during the military regime, live in rows of cramped, squalid government housing, often looking out on unlit, unpaved streets plagued with crime.

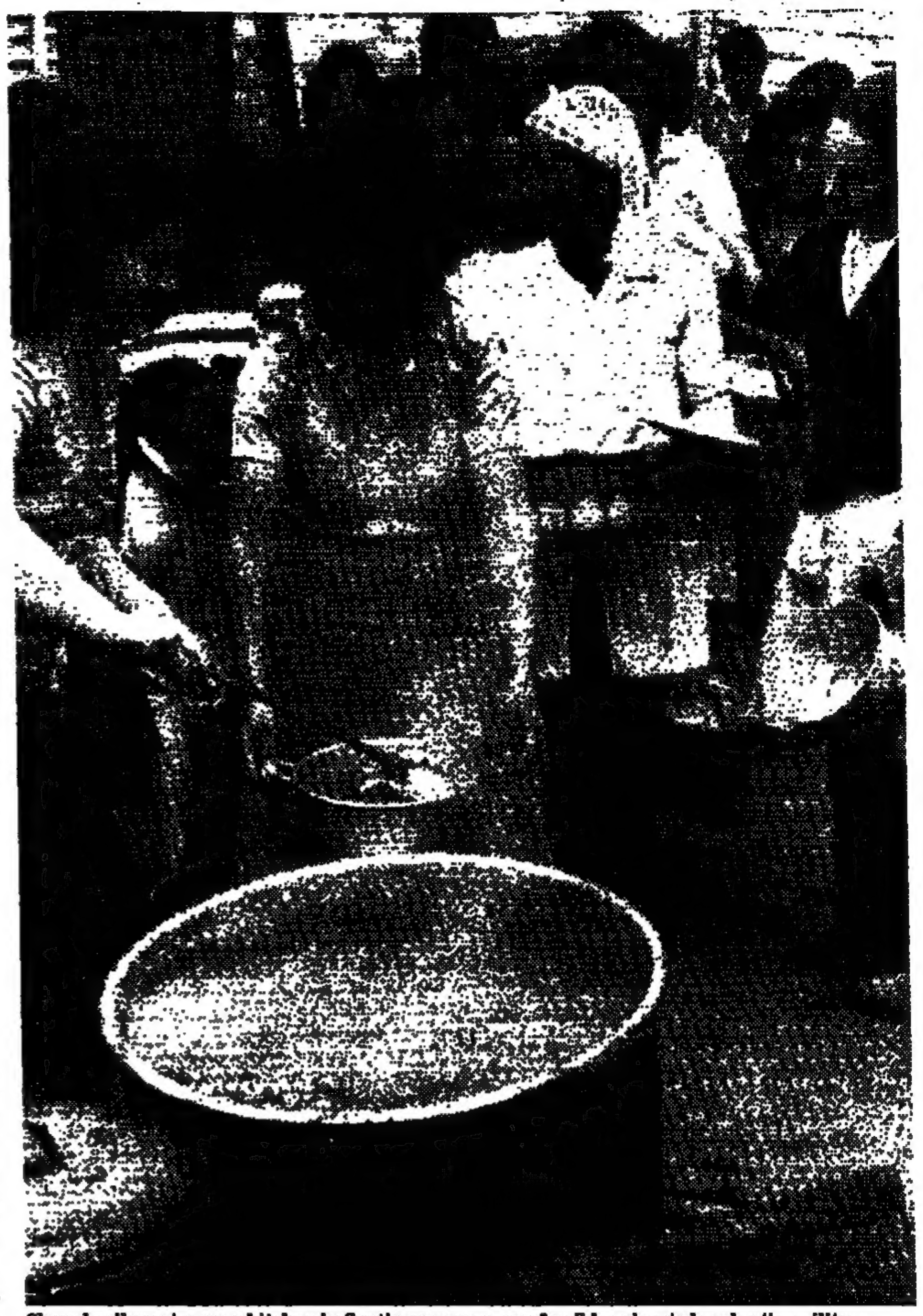
La Pintana's 170,000 inhabitants have no hospital and only one secondary school. More than half live below the poverty line. According to the mayor, Mr Jaime Pavez, residents are four times less likely to have regular work than their fellow Chileans. They are nearly 200 times less likely to own a telephone.

In spite of a decade of exceptional national growth, a third of Chileans still find themselves below the poverty threshold, while nearly one in 10 lives in extreme poverty.

Huge discrepancies between rich and poor, long existent in Chile, are becoming more obvious in a country whose rapid growth has delivered the trappings of a consumerist, western lifestyle to large sections of the population. So much so that both left and right-wing candidates in the presidential election this weekend have put the issue of Chile's poor at the top of their agenda.

Mr Eduardo Frei, the Concertación coalition candidate widely expected to win the presidency, has pledged to eradicate poverty within six years. Although there is much to be done, Mr Frei says, the centre-left coalition has made considerable inroads during its four-year term. According to official figures, by November 1992 the percentage of people living in poverty had shrunk to 32.7 from 40.1 two years earlier and 44.4 in 1987.

Given current growth rates, that figure should drop further to about 29 per cent by next March, according to Mr Alejandro Foxley, finance minister. "Essentially, in 1987 you had 5.5m living below the poverty line and by the end of this administration it will be 3.8m. I think that's pretty impressive."



Slum dwellers at a soup kitchen in Santiago: many were forcibly relocated under the military

Mr Foxley also cites data showing that people in abject poverty – defined as those unable to afford basic food requirements – fell to 9 per cent in 1990 from 13.8 per cent two years earlier, and 16.8 per cent in 1987.

Such progress, Mr Foxley says, has been the result of economic expansion (which has averaged 6.3 per cent over four years), the rapid creation of jobs, as well as specific policies to target Chile's poorest. Since 1990, the government has raised the minimum wage by "30 per cent in real terms", while family allowances have seen a "big expansion".

Mr Gert Rosenthal, executive secretary of the UN's Economic Commission for Latin America and the Caribbean, agrees that there have been significant improvements. "The recuperation that you are seeing now in part reflects the fact that, when this economy grows, you can pull people out of poverty in a relatively short time," he says.

"In other countries you can pour a lot of money in, but you are unlikely to see results for a generation. The type of poverty you have here is qualitatively different from that found, for example, in Peru or Bolivia. The levels of education, infant mortality, health and so forth are quite different.

"In Chile the workforce is sufficiently skilled to take up opportunities as they arise. They are trainable. In many other Latin American countries, there comes a point where this is not true." The creation of jobs is thus the over-riding factor, he says.

Official figures show unemployment continuing to fall sharply. The number of jobless is 4.5 per cent, against 6.5 per cent in 1990 and 20 per cent in 1982. Although some observers question the accuracy of government jobs statistics, few disagree with Mr Rosenthal's belief that unemployment has "clearly come down terrifically", nor with his assessment that wages at the lower end of the scale have risen markedly.

According to Prealc, the world employment programme, Chile has bucked the regional trend by creating not only more, but "better quality" jobs. Since 1985, the proportion of Chileans with low-paid, unstable work has steadily declined. Only 50 per cent of Chileans are self-employed or work for small businesses against 56 per cent in Mexico and 60 per cent in Colombia.

"Real salaries in Chile have shown a sustained recuperation since 1988," Prealc's report says. "Despite this, minimum wages are still below those of 1980." The group estimates real minimum wages at 83.4 per cent of 1980 levels, up from 63.4 per cent in 1985.

Mr Rosenthal says the government has struck the right balance between specific measures aimed at tackling poverty and policies intended to stimulate economic growth and job creation generally. "If we were asked to grade the government in this area we would give them high marks. They seem to have got it about right."

From La Pintana, it is less easy to be sanguine. Mr Pavez feels the government has not done enough to help "marginalised communities". He is particularly aggrieved at the allocation of local taxes which, he says, favours wealthier municipalities.

"For example, in Las Condes (one of Santiago's richest districts) you have well-equipped public health facilities even though most people go to private clinics. Here, where there is much greater need, we don't even have a hospital."

Government housing too, he says, often fails to meet basic standards. He recently refused to attend a ceremony in his municipality intended to welcome residents to their new homes. "Some houses didn't even have floors or staircases," he says. "I didn't go because I couldn't say 'welcome' – it would have been false."

Mr Pavez says districts such as La Pintana need what he calls "discriminatory decentralisation", the channeling of funds from wealthier districts to poorer ones.

In the absence of the necessary resources, he says, it will prove almost impossible to "cut the vicious cycle of poverty. Without this we won't be able to incorporate our people into the world outside - the world of the Chilean miracle."

Latin America incomes 'need restoring'

Two out of every five Latin American city-dwellers are poor, while three in five of the rural population live in poverty, according to a UN study published recently, David Pilling writes from Santiago.

Throughout the 1980s income distribution worsened significantly as countries adjusted to the effects of the debt crisis, according to the Social Panorama report produced by the Economic Commission for Latin America and the Caribbean (Cepal).

"This did not only affect homes on low incomes, deepening their poverty, but also hit the middle classes who lost out relatively in terms of income distribution." The task of restoring middle class living standards is "more difficult and lengthy" than that of eradicating extreme poverty, according to Cepal, since it requires much greater resources.

In the short term, Cepal says, governments need to tackle three areas: restoring salaries in the formal sector to pre-1980s levels, raising productivity and conditions in the informal sector and strengthening inadequate social security and pension provisions.

"By different means and with varying intensity, Latin American governments have made advances on all three fronts, although much remains to be done," the report says.

In the medium term, governments must develop "human resources" through fairer access to education, tackling youth unemployment and expanding resources in rural areas.

Escobar's death frees government to concentrate on other targets

Colombia shifts focus in the drugs battle

By Sarita Kendall in Bogotá

After years of obsession with Pablo Escobar as the main source of Colombia's evils, the country is unexpectedly realistic about the significance of his death. An opinion poll after the Medellín drug chief was shot dead last week found that more than half those interviewed thought drug trafficking would continue as before; a third said there would be no change in the violence.

President Cesar Gaviria and other political and military leaders were clearly relieved the memory of Escobar's escape from his luxury jail could be rubbed out, but they expressed satisfaction rather than triumph and talked in terms of the long battle ahead. Perhaps one of the most useful results of Escobar's death is that the drug problem can now be seen in greater perspective. The US ambassador to Bogotá says the government will now be able to direct its efforts against the more serious Cali trafficking group.

For years the Cali groups have represented the more tolerable face of trafficking. While Escobar terrorised the country with car bombs, the Cali people bought banks, funded politicians, founded universities and concentrated on legalising their fortunes. On the whole, the violence did not impinge on the public, but with the appearance of new heroin trafficking groups, this changed: dozens of bodies floated down the River Cauca and Cali's murder rate shot up.

The government is trying to draw Cali and other traffickers into the surrender-and-confess programme; they would serve short sentences and then emerge with "legal" status. But some see the surrender legislation as almost as good as an amnesty.

Even if the top people surrender, as it seems they may, there is no reason to suppose their organisations will stop trafficking, and there are plenty of ambitious young criminals waiting.

The number of trafficking groups and the size of the business are growing, according to drug experts in Colombia. Only recently has any serious effort been made to tackle money-laundering structures and stem the avalanche of returning dollars, estimated at $800m-$5bn a year over the past two years.

President Gaviria, the police and armed forces have recovered prestige at home and abroad with the death of Escobar. It also removes one source of violence from the current electoral campaign (three presidential candidates were assassinated in the last one). Business people believe foreign investors will regain confidence in Colombia. As one newspaper columnist wrote: "The Escobar excuse is over and forces the government to show better results on other fronts."

Blank tapes row leaves Gatt negotiators out of tune

By David Dodwell, World Trade Editor, in Geneva

It is a mercy that the 50-minute flight from Brussels to Geneva is too short to screen films. They would without doubt be American, and for bleary-eyed US and European Union negotiators who yesterday headed for the headquarters of the General Agreement on Tariffs and Trade after inconclusive all-night negotiations, they would have rubbed salt in already deep wounds.

As officials briefed Mr Peter Sutherland, director general of Gatt, and other international trade negotiators, on why they remained at loggerheads over bilateral trade reforms, the issue of US film-makers' rights in Europe's audio-visual market appears to be at the heart of their outstanding problems.

Before leaving for Geneva, Mr Mickey Kantor, US Trade Representative, said: "We can see the outlines of a truly historic agreement involving 110 nations...We were not, however, able to conclude agreement in the audio-visual sector because the EU was unwilling to provide foreign companies fair access to the revenues that are their due as owners of intellectual property rights."

The irony is that both Mr Kantor, and Sir Leon Brittan, his EU counterpart, arrived in Geneva with 99 per cent of an immensely ambitious market-opening package already settled. Mr Kantor talked yesterday of a package that would involve EU tariff cuts for US goods of 50 per cent, with zero-for-zero cuts alone being worth over $5bn.

The EU has won similar cuts from the US. The agreement paves the way to a global tariff-cutting deal that is expected to add more than $230bn a year to trade by the year 2003. Why then has a dispute over copyright and royalty payments to US performing artists – worth tens of millions of dollars at most – put so much in jeopardy?

Inevitably, part of the answer lies in irrationality: US negotiators who have bowed twice in the past 12 months to strident EU pressure to amend Uruguay Round plans to liberalise farm trade – at immense political cost at home – have focused on the audio-visual issue as one on which a stand must be made. A powerful and noisy lobby at home, headed by Mr Jack Valenti, president of the American Motion Pictures Association, has kept US negotiators under pressure.

The sector is of immense importance to the US. Sales to Europe of films, music and television programmes amounted to $3.6bn last year. Only the aerospace sector earned more. In spite of an EU broadcasting directive which is supposed to reserve at least half of broadcasting time to European-made programmes, US productions accounted in 1991 for 81 per cent of European cinema screenings, more than 70 per cent of box-office takings, and 54 per cent of dramas and comedies on television.

Europeans – particularly the French – are demanding protection for their audio-visual sector on cultural grounds. They have insisted this must include future technologies, like satellite and cable television, multimedia, and pay-for-view films, despite knowing that it will be virtually impossible to police such protection.

While scoffing at such claims as protectionism in disguise, the US has bowed to most EU demands. Mr Kantor said yesterday: "We have fully respected the cultural identity of Europe, and agreed to their cultural specificity language."

The residual dispute hinges on French and German levies on blank audio and video tapes which are used to subsidise the arts locally, and provide funds for local copyright holders. The US says American performers and producers have a right to a share of these levies, since the tapes are largely used to record US-made films or music.

The EU retorts that there is no obligation under the Gatt to treat foreign and local performing artists equally. They also complain that since the US has no such levy, there is no reciprocal opportunity to raise funds in the US for European artists. There is no exact estimate of the sums involved, but the tens of millions discussed pale into insignificance alongside the billions at stake in the Uruguay Round.

Angry exchanges over this issue are also distracting attention from the immense ground covered by US-EU negotiators in recent days in agreeing a far-reaching tariff-cutting package. This is understood to include:

- Tariffs on wood and paper products cut to zero.
- "Very substantial" tariff cuts across the electronics sector, averaging 70 per cent, with some cuts to zero.
- Tariffs on steel cut to zero.
- Tariffs on some non-ferrous metals cut to zero.
- Some 80-85 per cent of US tariff peaks cut on glass, ceramics and textiles.
- The introduction of ocean shipping to Gatt disciplines.
- Completing a procurement deal.

The package also agrees a new, more gentle, regime for reducing Europe's subsidised food exports. This bows to French demands and allows EU farmers to export in total an extra 8m tonnes of wheat over the coming six years. US farm exporters will reap similar gains.

Paris leads the jostle for crumbs

By Lionel Barber in Brussels

It is a familiar Brussels tale. European support for a Gatt world trade agreement will depend less upon grand political calculations but rather on behind-the-scenes deals aimed at appeasing aggrieved parties, of whom the most powerful remains France.

As foreign ministers yesterday debated the merits of the US-European Union trade pact, now within an ace of completion, it became clear that at least four or five member states sought "compensation". Thus Portugal is looking for special aid to restructure its ailing textile industry; Greece wants compensation for potential losses to its maritime shipping industry; Spain is worried about Mediterranean fruit; and Ireland is concerned about its farmers.

Paris is leading the pack, using all-or-nothing tactics.

As a veteran EU diplomat put it, with both distaste and admiration: "The French have realised they have squeezed as much as they can expect out of the Americans, now they are looking to do the same with their European partners."

Late on Monday night, Mr Alain Juppé, French foreign minister, insisted that France was still unsatisfied on agriculture; industrial tariffs, particularly on textile imports to the US; films and broadcasting; and new global trade rules.

First, Paris wants a guarantee from its EU partners that French farmers will not suffer any more loss of production under the revised EU-US Blair House accord than it has already agreed under the May 1992 reform of the Common Agricultural Policy.

Second, France is pressing for tougher European trade weapons such as anti-dumping measures to match American measures. This would include a "market opening" instrument similar to US Section 301 legislation. "They want a nuclear balance," said one German diplomat.

By far the most serious problem centres on agriculture. France's demands put her at odds with her traditional ally, Germany. If French pressure translates into lower prices to compensate for Blair House curbs on production, this would allow its comparatively efficient cereal producers to capture market share in Germany at the expense of German farmers.

French pressure for financial compensation is a potential EU budget-buster. Several diplomats doubted yesterday whether spare cash existed within the seven-year Delors II budget package, agreed last December at the Edinburgh summit, mainly because a "weasel" provision allowing "appropriate steps" to meet exchange-rate turbulence had been exhausted.

Germany is in a weak position. Traditionally a supporter of budget restraint, Bonn makes an exception with its farmers. Hence its insistence that the so-called "switchover" mechanism to protect German farmers from D-Mark revaluations remains intact – a demand which has grown louder after the collapse of the ERM last August and the decision to float all currencies within a 15 per cent band.

In better times, Chancellor Helmut Kohl would have slipped into his familiar role as the reluctant paymaster. But with a steep budget deficit and sliding popularity, Mr Kohl no longer has the same margin of manoeuvre.

The assumption yesterday was that the internal wrangle would have to resolved at the European summit on Friday. The billion Ecu question is whether Mr Kohl will cough up, once again, for his French ally.

SO CLOSE: Mickey Kantor spoke of progress Reuter

CONSULTING: Sir Leon Brittan with German economics minister Günter Rexrodt Associated Press

Tokyo threatens to scale down offer

Hint of deal between US and EU on market access upsets the Japanese

By David Dodwell, World Trade Editor, in Geneva

The danger of shrinkage in the Uruguay Round of global trade reform was raised in Geneva yesterday as Japanese negotiators warned they might modify their tariff-cutting offers.

Their move came in response to signals concerning the US-European Union market access deal being finalised in Brussels.

Japanese negotiators are threatening to pull back from conditional commitments to cut to zero all tariffs on non-ferrous metal imports, following signals that the EU is calling for special treatment on aluminium. Similarly, EU demands that tariffs on wood and paper products be phased out over a 10-year period, rather than five years as previously discussed, have triggered threats of back-tracking.

Japan is refusing to discuss opening up its market for leather products unless the EU tables a "satisfactory" offer to cut tariffs on electronic products and semiconductors. South-east Asian governments are also seeking better access to Europe's electronics market before offering to open any further their financial services markets.

It was unclear last night how far the latest bilateral US-EU deal on cutting electronics tariffs had gone.

The EU is understood to have offered to cut to zero tariffs on certain semiconductor equipment, but cuts for semiconductors as a whole may leave average tariffs of about 3 per cent. Large parts of the electronics sector – in particular the consumer electronics area of keen interest to Japanese exporters – may remain largely unaffected.

In the non-ferrous area, considerable momentum towards a global compromise was reached at the recent Asia Pacific Economic Co-operation summit in Seattle. Japan and other Asian importers agreed to a US-Canadian proposal to cut tariffs across the sector to between zero and 3 per cent. The proposal was finely balanced, matching US concessions in zinc with Japanese tariff cuts in copper. The deal was conditional on the EU making similar concessions in its own sensitive aluminium sector.

However, fierce French defence of the interests of Pechiney's new aluminium smelter in Dunkirk has tied EU negotiators' hands. The present tariff cutting offer leaves average duties on aluminium pellets at 6 per cent, and average duties on finished aluminium products at 7.5 per cent. Only duties on semi-processed aluminium products are currently on the table, with modest cuts from 10.5 per cent to 7 per cent on offer.

Canada and Australia seek gains for their non-ferrous metal exporters as part of the balance for cutting tariffs in their own sensitive areas. Canada in particular is under pressure to liberalise its dairy sector, but has refused to bow to this pressure while prospects remain unclear for its non-ferrous, and wood and paper exporters.

Japanese premier 'ready' for deal on rice

By Emiko Terazono in Tokyo

Japan's prime minister indicated yesterday that his government was ready to accept a compromise on opening its rice market to imports.

Mr Morihiro Hosokawa said Japan, which benefited from the world's free trade system, needed to bear a proportional burden. His comments increased the tensions within his seven-party coalition, which includes the Social Democratic party which depends heavily on the farming vote, which wants to keep import restrictions.

Mr Tomiichi Murayama, chairman of the SDP, reaffirmed the party's opposition to the partial lifting of the rice ban. Some hardliners within the party have been threatening to leave the coalition if the import ban is lifted. The SDP, the largest member of the coalition, will officially decide its policy tomorrow, before the Japanese government's formal announcement on Friday.

Mr Hosokawa's remarks yesterday were in response to a draft proposal by Gatt's market access negotiators.

It allows a six-year grace period on tarification of rice imports, on condition Japan allows minimum access of 4 to 8 per cent of domestic consumption during the period.

Whether the special treatment will be continued after the moratorium period is subject to negotiation a year before the period ends.

In spite of the outcry from farmers' associations, the business community, which faces constant overseas pressure over Japan's mounting trade surplus, applauded the decision to lift the symbolic trade barrier.

● Farmers and students fought riot police in the South Korean capital yesterday as tens of thousands protested against a government U-turn which would allow rice imports, Reuter reports from Seoul.

Some protesters attacked police lines with sticks and iron bars while shouting slogans against talks in Geneva between South Korean and US officials which are expected to lead to liberalisation of the rice trade.

Balladur sidesteps Uruguay Round trap

By David Buchan in Paris

Mr Edouard Balladur, France's prime minister, saw the Gatt negotiations as "a trap between international isolation and a domestic political crisis" for himself and France.

He brought the world trade talks to the brink of collapse to win an agreement with the US, particularly on agriculture, which may yet provoke the wrath of his backbenchers and the farm lobby. But Mr Balladur may be in the process of wriggling out of his trap.

His ministers, however, were yesterday saying that France was still not satisfied on several aspects of the Gatt negotiations.

Mr Balladur's moment of truth will not come until the French parliament pronounces probably next week on what the talks in Brussels and Geneva produce. The opposition parties – Socialists, Communists and National Front – were yesterday quick to denounce the tentative trade agreement.

But it is hard to believe that Mr Balladur will go before the National Assembly without first squaring the ruling coalition parties.

In this task, he is getting a helping hand from President François Mitterrand, a Socialist. Mr Mitterrand was last night consulting leaders including Mr Balladur's fellow gaullist Mr Jacques Chirac, whose cultivation of the farm vote in his bid for the presidency has worried the prime minister. Mr Mitterrand is due to see farmers' leaders today before he and Mr Balladur set off for the EU summit in Brussels on Friday.

In Brussels, the French leaders will drive home their country's demands that the Gatt deal will not force French farmers to take any more land out of production, or leave Europe without the same instruments of commercial defence against dumping or unfair trade as the US has.

By throwing these intra-EU demands into Europe's negotiations with the US, the French government has irritated its partners but also, in Paris' view, widened the scope for trade-offs, allowing France to get compensation from Brussels for concessions it could not wring from Washington.

But underlying all this has been the way that Mr Balladur has sought to use his political weakness over Gatt as his strongest bargaining card. It is, after all, conceivable that an unsatisfactory Gatt deal could topple him from power.

In the agricultural area, Mr Balladur has at least staved off the sharpest cuts in French subsidised farm exports until the later 1990s. This would postpone any pain until after the 1995 presidential election, on which he still has his options open.

German-French telecoms tie-up is seen in global strategy terms

Andrew Hill on a regulatory riddle for the European Commission

The joint venture between Deutsche Telekom and France Telecom unveiled yesterday presents the European Commission with a regulatory conundrum.

The companies have already been talking informally to Brussels and will now present formal proposals for a joint venture to the competition authorities. Their hope is that they will receive clearance from the Commission before the end of the first quarter of next year.

The companies believe the Eculbn partnership – to offer advanced telecoms services to business customers – should be examined in the context of a rapidly developing global market. They are also eager to stress that it amounts to the best chance Europe has of gaining a strong strategic foothold in that market.

By linking up, "we are contributing to the pan-European fusion of cultures and markets, and we are helping to create jobs in a fascinating industry and to secure Europe's position within global industrial competition," Mr Helmut Ricke, Deutsche Telekom's chairman, said yesterday.

If the Commission accepts that the Franco-German alliance should be judged against the largest telecoms companies in the world – particularly from the US – then it is unlikely to block the deal on anti-trust grounds. Even judged by more restrictive standards, the two companies claim only 10 per cent of the European market for advanced services, although they admit the figure is based on guesswork.

As Mr Marcel Roulet, France Telecom's chairman, said yesterday: "We think that the Brussels authorities are aware that it would be somewhat paradoxical if their rules led them to block a partnership between large European players, while approving partnerships between players from different continents."

First, however, the Commission will have to decide whether the Franco-German deal falls under its jurisdiction. In September, the Commission decided it could not examine the proposed joint venture between British Telecom and the US operator, MCI, under its 1990 merger regulations – which allow for a fast-track procedure lasting less than six months – because the deal was too small. Instead, it has decided to look at the alliance under wider European anti-trust rules, and that investigation is continuing.

BT is already concerned about its joint venture being confused in regulatory terms with the Franco-German alliance. The British company argues that a joint venture between two state-owned companies – which are simultaneously resisting any acceleration of the European liberalisation process – cannot be compared with its free-market joint venture.

However, the coincidence of the two inquiries would also allow the Commission to develop its policy towards such mergers at a stroke. Deutsche Telekom and France Telecom hope for a reasonably flexible interpretation of the rules. They stressed yesterday that their alliance – at least at this stage – covers only those areas which have already been opened to wider European competition.

The alliance sends a mixed signal to telecoms ministers, who were meeting in Brussels yesterday to discuss the ground rules for the liberalisation of the European industry. The French and German governments have thrown their weight behind the deal. But other ministers may oppose a strong new joint venture, which would challenge the ability of their own state-owned telecoms groups to compete on the liberalised market.

However, a flexible interpretation of European competition rules would chime with the Commission's overall vision – contained in its White Paper on growth, competitiveness and employment – of a new "information society," serviced by strong telecoms and information technology companies.

See Editorial Comment

Eisenberg plans China ventures

By Julian Ozanne in Jerusalem and Haig Simonian in Milan

Mr Shaul Eisenberg, the Israeli billionaire, has concluded a series of deals to expand his investments in China following the normalisation of Israeli-Chinese relations.

Many of the deals, involving the opening of Burger King fast-food restaurants, expansion of oil refineries and construction of a highway, were concluded during the recent visit to Israel by the governor of Jiangsu province, Mr Wu Guanzheng. The governor was a guest of Mr Eisenberg.

Under the Burger King deal, signed this week in Tel Aviv between Mr Eisenberg and Mr James Adamson, president of Burger King International, the Israeli financier has won the franchise to open at least 10 restaurants in China.

The first 500-seat restaurant will be in Beijing. Mr Eisenberg's Panama-registered United Development Incorporated (UDI) will carry out the project in co-operation with Chinese partners.

During the visit of Jiangsu's governor, Mr Eisenberg also signed agreements to expand the province's oil refineries and construct a toll-highway from Nanjing to Shanghai.

In addition, Mr Eisenberg is taking a stake in a new joint venture with Italian and local partners to produce industrial sewing machines. UDI is joining with Rimoldi, an Italian manufacturer, and Tianjin Tiangong, a local Chinese company. At full capacity, the new venture will produce 25,000 sewing machines a year.

The majority stake will be held by the Chinese partner, while Rimoldi will have 23 per cent and UDI about 18 per cent.

Cathay Pacific is to buy six long-haul Airbus A340-300 aircraft, costing US$800m, Louise Lucas writes in Hong Kong.

Cathay said the aircraft – which can carry 233 or 260 passengers – will enable it to increase profits on traditionally less profitable long-haul routes, such as those between Hong Kong and Amsterdam, Paris, Rome and Zurich. The decision to buy Airbus, rather than Boeing, was based on product suitability. The new aircraft will come on line in 1996-1997. Meanwhile, Cathay is to lease four A340-200s.

Low-key start to new order in S Africa

By Patti Waldmeir in Cape Town

White rule ended formally in South Africa yesterday when a multi-racial Transitional Executive Council took office in Cape Town, in a ceremony marking the end of decades of anti-apartheid struggle.

Its first substantive act was to approve a government application to the International Monetary Fund for a loan of $850m (£570.4m) from its compensatory and contingency financing facility, to counteract balance-of-payments problems caused by last year's drought. It was the first time Pretoria had sought the sanction of black South Africans for its actions, and represents the first concrete step toward black rule.

"We have done it. We have achieved the seemingly impossible. Now for the miracle of a completely free and fair election," Mr Joe Slovo, Communist party chairman and a former guerrilla leader who was for years Pretoria's most hated adversary, told the first meeting of the TEC.

The ceremony, curiously muted, took place in the chamber of the Good Hope building, in the shadow of Table Mountain. It was marred by the absence of seven of the the 26 parties which originally took part in multi-party talks on a new constitution.

Chief among these were the Inkatha Freedom party and the white-supremacist Conservative party, whose decision to boycott the TEC, and possibly next year's elections, threatens transition to democracy.

On Monday night, talks between the right-wing parties, known as the Freedom Alliance, the African National Congress and the government broke down after the ANC issued an ultimatum: the Freedom Alliance must agree to take part in the TEC and other transitional bodies, and in the elections, before further talks can take place on constitutional amendments to meet the alliance's demands for stronger federal powers for regions.

The government has released a proposed amendment on regional powers, making cosmetic changes to the constitution agreed last month. In a symbolic act of protest at the installation of the TEC, about 30 armed white rightists occupied Fort Schanskop outside Pretoria. The government and the ANC continued to dispute the actual extent of the TEC's powers, with Mr Cyril Ramaphosa, ANC chief negotiator, urging delegates to ensure it is not a "toy telephone".

Banda resumes power in bid to restore order

By Nick Young in Lilongwe

President Hastings Banda resumed executive power in Malawi yesterday, in an apparent move to restore order after an army crackdown on Malawi Young Pioneers, the armed wing of the ruling Congress party.

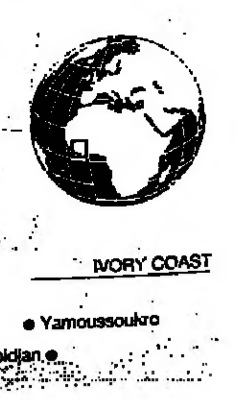
Government and party premises were attacked during the crackdown, believed to have been instigated by middle-ranking army officers, in which about 30 people died.

Opposition leaders doubt Dr Banda's ability to govern after a brain operation and a two-month convalescence, during which power passed to a Congress party triumvirate.

An opposition-dominated National Consultative Council has urged the triumvirate's resignation and the sacking of Maj Gen Isaac Yohane, army chief of staff. Dr Banda's return meets these demands halfway, but the opposition wants an interim president appointed, pending elections.

Ivory Coast left an explosive legacy

Leslie Crawford reports problems are crowding in on Houphouët's successors



President Félix Houphouët-Boigny of the Ivory Coast, Africa's longest serving leader, died yesterday at the official age of 88, leaving a bitter struggle over his succession and an economy in ruins.

"Ivory Coast is orphaned," Mr Alassane Ouattara, the prime minister, said in a brief address on state television. The metaphor is appropriate. Ivorians have only known one leader since independence in 1960, and the stable government they enjoyed under his paternal rule could disappear with its creator.

Whether out of vanity or superstition, Mr Houphouët-Boigny refused to groom an heir. "An African chief never names his successor," he once said, and the subject became taboo.

Under the constitution, the speaker of parliament, Mr Henri Konan Bedie, should lead the country until the end of the current presidential term in October 1995. But Mr Bedie is locked in a bitter struggle for power with Mr Ouattara, and no announcement immediately emerged concerning the new head of state. Supporters of the prime minister argue that the Supreme Court is inquorate, making a constitutional succession impossible.

Mr Bedie, a career politician who comes from the president's Baoule tribe, has the strongest claim to the throne. But Mr Ouattara, a former director of the International Monetary Fund, enjoys a better reputation.

Mr Ouattara is nominally in charge of a government which has drifted for most of this year. Policies that could arrest the Ivory Coast's economic decline have not been forthcoming.

France, the former colonial power which has payed the Ivory Coast's annual $350m (£250m) debt-servicing bill to the World Bank since 1992, is threatening to withdraw critical balance-of-payments support at the end of the year. The country cannot service its $17.3bn foreign debt by itself.

Talks with the IMF, which were due to start this week, will probably have to be suspended until the succession struggle is resolved. The economy was stagnant this year, after five years of declining output in which gross domestic product fell by 7 per cent. The collapse of commodity prices has impoverished the country, the world's largest cocoa producer. The World Bank estimates per capita incomes have plunged by 25 per cent since 1987.

"It is a decline comparable only to the hardships suffered in the Soviet Union," says a World Bank economist, "without safety nets or programmes for the poor."

In the minds of many Ivorians, the country's economic malaise became fused with the president's declining health. Anti-immigrant riots that swept through the capital Abidjan in November, as the president lay unconscious in his palace in Yamoussoukro, were taken as a bad omen.

Ivorians fear there is no one of Houphouët-Boigny's stature to rein in the ethnic and social tensions which threaten the most stable regime in West Africa. "Houphouët's legacy is crumbling," says Mr Laurent Gbagbo, leader of the largest opposition party, the Front Populaire Ivoirien. "The ruling party is tearing itself apart in the leadership struggle; the government is bankrupt; civil servants are on strike. Our task today is to rebuild this crumbling edifice together."

So far, Mr Gbagbo's message has fallen on deaf ears.

Racist overtones have crept into the fray. Newspapers backing Mr Bedie denounce Mr Ouattara as a "foreigner" because he was educated in Burkina Faso and the US. Newspapers supporting the prime minister attack the Bedie camp as "fascists".

France has taken the lead in trying to ensure a peaceful transition. "This period of social unrest and uncertain political leadership is potentially very explosive," says a western ambassador in Abidjan.

Underlying the concerns of many diplomats is the fear that if the politicians cannot agree among themselves, the military will take over.

A chief who postponed the day of reckoning

By Leslie Crawford

While most leaders are judged by their achievements, a cruel twist of fate granted Félix Houphouët-Boigny such exceptional longevity that he was forced to live through the decline of his greatest creation: the Ivory Coast.

The loss of "le Vieux", the father of the nation, has given Ivorians the chance of a fresh start 33 years to the day after independence from France.

They must now decide who is to succeed him and how – a question Houphouët-Boigny refused to discuss during his lifetime – and confront the economic and social malaise ushered by the collapse of cocoa and coffee prices in the early 1980s.

As Houphouët-Boigny advanced in years, his pre-occupation with eternity became more pressing than the day-to-day running of his country.

Like the pious monarchs of medieval Europe, Houphouët-Boigny paid lavishly for a place in heaven. He often boasted that the Basilica of Our Lady of Peace in Yamoussoukro, his $150m gift to the Vatican, was financed from his personal fortune. The Basilica in the jungle, only a fraction smaller than St Peter's, stands as a testament to his devout Catholicism – and the delusions of grandeur common to dictators.

Born before the French took possession of his native village, Félix Houphouët, a doctor trained in Dakar, made his first impression on the colonial administration of the 1930s by campaigning for higher cocoa prices for African farmers.

He added Boigny ("the ram" or "irresistible force") to his surname after being elected to the French constituent assembly in 1946, where he promoted a law which abolished forced labour in France's African colonies. He went on to serve six terms of office as a minister in the governments of two French republics.

He did not fight for the Ivory Coast's independence. Rather, it was his way of escaping plans for a Federation of West Africa advocated by fellow Africans like Leopold Senghor of Senegal and Ahmed Sekou Toure of Guinea. He was the odd-man-out among Africa's emerging leaders in many respects. Ideals of pan-Africanism filled him with profound scepticism. He favoured close ties with France, and a capitalist model of development. Africa, he was quoted as saying, "must be an extension of Europe".

At the first summit of the Organisation of African Unity 30 years ago, he was the lone voice opposed to sanctions against South Africa.

With French investment and thousands of French advisers in government, however, Houphouët-Boigny's Ivory Coast came to be seen as a model post-colonial state. He managed to combine a polished international reputation and the outlook of an African chief.

Until 1990, the Ivory Coast was a

Houphouët-Boigny lived through the decline of his greatest creation *Reuter*

one-party state, but a benevolent one. Political opponents were occasionally locked up. More often, they were co-opted into government with generous offers of ministerial posts. There was no death penalty during his rule, and the Ivory Coast enjoyed a better human rights record than most post-independence African states.

Above all, there was stability.

Every five years Houphouët-Boigny was re-elected, unopposed, to the presidency with 100 per cent of the vote. He created an economy based on cocoa and coffee, and borrowed heavily against the commodity boom of the 1970s to transform Abidjan into a showcase of African development. The Ivory Coast was, for a while, the richest country in Francophone Africa.

Then the world price for cocoa started to fall, attempts to protect Ivorian growers with guaranteed prices ran up huge budget deficits, and the nation slid suddenly towards hunger and crime. When social unrest forced the advent of multi-party democracy in 1990, Houphouët-Boigny conceded 18 per cent of the vote to his rival, Laurent Gbagbo, in a contest marred by fraud.

By then, Houphouët-Boigny was well into his 80s and spending more and more time convalescing from various ailments in Europe. The fact that there were no coup attempts during his prolonged absences was a tribute to his unquestioned authority.

His greatest mistake was to postpone the inevitable day of reckoning, when the Ivory Coast would have to learn to live without him. The succession became a taboo subject.

The animist traditions of his Baoule tribe, he once told visiting choir boys, say that if you die a chief, you will remain a chief in the after life. Die a servant, and you will forever be a servant. Houphouët-Boigny, who retained the services of a witch-doctor as well as the top cancer specialists of Switzerland, made sure he would die a chief.

هكذا من الاصل

Peres predicts renewed talks with Syria

By Julian Ozanne in Jerusalem

Mr Shimon Peres, Israel's foreign minister, said yesterday Syria was ready to renew peace talks after successful shuttle diplomacy by Mr Warren Christopher, US secretary of state.

The claim came as Syria said it had rejected an Israeli proposal to withdraw in four phases from the occupied Golan Heights in return for immediate peace.

Mr Christopher is expected to announce the resumption of Middle East peace talks in Washington in January after a break of seven months when he returns to Damascus tomorrow for a second round of talks with President Hafez al-Assad.

In Bonn Mr Yassir Arafat, Palestine Liberation Organisation chairman, renewed his demand that Israel stick to a deadline five days away for starting to withdraw Israeli troops from the Gaza Strip and West Bank area of Jericho.

Mr Arafat said the December 13 date was sacred and if it was not met "it would reflect negatively on the credibility of the peace process". In Israel officials reiterated that the deadline could not be met although some symbolic gesture might be made.

A meeting between Mr Arafat and Mr Yitzhak Rabin, Israeli prime minister, is one option being considered. Mr Arafat is due to meet Mr Peres in Spain tomorrow.

Palestinian and Israeli negotiators remain deeply divided on a number of economic and security issues. In Cairo, where talks are being held on military and security issues the two sides have yet to agree the size of the Jericho area, who will control border crossings and the number of Israeli troops who will remain in Gaza-Jericho to protect Israeli settlers.

Mr Nabil Shaath, chief PLO negotiator, said however that the two sides would exchange draft agreements today which would be subject to further negotiations.

Some progress has been made in Paris, where the two sides are negotiating future economic relations. Mr Yacob Tsur, Israeli agriculture minister, said yesterday agreement had been reached on a phased entry of Palestinian agricultural produce into Israel starting with 70,000 tonnes of vegetables and 100m eggs in the first year.

Mr Tsur also said the Palestinians had agreed to prohibit import of produce from third countries currently prohibited in Israel.

Officials also said the two sides had largely agreed on money and banking for the Palestinian economy. Disagreement remains over an Israeli proposal for a customs union with harmonisation of taxes and duties.

Meanwhile, Israeli settlers all across Israel demonstrated, blocked roads and shouted anti-government slogans protesting against Monday's killing of two Jewish settlers in an ambush by extremist Palestinians in Hebron. Thousands took part in the funeral procession from Bnei Brak through Jerusalem to Hebron.

Rabin and Christopher in Jerusalem yesterday Reuter

'Peace agreement is a recipe for civil war'

Jewish settlers to fight on as 'vanguard soldiers'

Julian Ozanne reports on fear and hatred in Hebron

Cradling an infant, Mrs Orit Struck, a 33-year-old pregnant mother of six, talks softly about the fears of Jewish settlers in Hebron, a hotbed of zionist militancy and a flashpoint of current Arab-Jewish violence.

"Every time I take my children to school I have to try hard to smile at them because I know that by noon I may not see them ever again," she says the morning after Palestinian gunmen ambushed and shot dead a settler and his son in Hebron. "That is the most awful thing for a mother."

Of the Arabs, she says: "We know they hate us and are our enemies. They tell us openly as soon as the army leaves they will come and kill us all with guns and knives. But the worse thing is that there are Jews in the government standing behind them and giving them encouragement. We are betrayed."

So why does she stay in her small apartment complex, surrounded by soldiers, gun-toting Israeli settlers, wire fences and watchtowers in an Arab town? Like many orthodox Jews, Mrs Struck, who carries a gun, believes that God gave the Jews all the land in the West Bank – which they call by the Old Testament name of Judea and Samaria.

"The places in Judea and Samaria are the roots of Jewish life. It is like a tree and here are the roots, especially Hebron. Here Abraham brought land for his sons and King David started his royalty. We are like vanguard soldiers of the Jewish people. To leave would be like deserting a soldier's post. Most people, like me, are becoming more stubborn."

Outside soldiers patrolled the deserted roads of the usually bustling Arab market town enforcing a strict curfew after Monday's killings which, in turn, came after Jewish settlers shot into crowds of Palestinians last week and killed one.

At the scene of Monday's ambush a group of Jewish students erected a memorial to the two dead settlers out of stones stained with dried blood. Behind them lay an overturned Arab car and smouldering tyres set alight when settlers rioted after the killings.

Since the Israeli-Palestinian peace accord was signed in September, the 120,000 Jewish settlers have been increasingly vocal against the agreement which they fear, ultimately, will mean giving up their homes.

Violence on the settler side has been matched by Islamic fundamentalists who are also opposed to peace, leaving at least 18 Israelis and 34 Palestinians dead since September. Yesterday the fundamentalist Hamas movement claimed responsibility for Monday's killings and said it was changing tactics from attacking soldiers to attacking settlers.

The settlers, acting under the umbrella of the Yesha Council, have formed a security organisation called Hashomer – an armed security force of settlers. They have also threatened a nation-wide campaign of civil disobedience.

Some government ministers have branded Yesha Council "a subversive organisation" and the violence "Jewish terrorism". One warned that the government might consider taking away the right of settlers to carry weapons.

All of this has divided the country and raised the prospect of an upsurge in conflict.

"We have always said the peace agreement is a recipe for civil war between Jews and Palestinians," said Mr Elyakim Ha'Etzni, a right-wing settler leader. "The whole country is going to be consumed by civil war and it will end up with tens of thousands of victims, and hundreds of thousands of Arabs will be evicted. This is now inevitable. It will be just like Sarajevo."

Rebels in Burma take softer line

By William Barnes in Bangkok

The Democratic Alliance of Burma, a hard-pressed grouping of ethnic fighters, political exiles and students which has been the focus of opposition to the Rangoon regime, is willing to enter into peace talks to end four decades of armed struggle against the military government, it said yesterday.

Dr Em Marta, spokesman for the Karen insurgents and a member of the alliance, said the DAB was willing to send a delegation to Rangoon to prepare the ground for substantive talks. "We can go to Rangoon to see what they have to offer, to test their sincerity," he declared.

The alliance has until now said it would engage only in comprehensive round-table talks, outside Burma, after the release of all political prisoners. The heroine of the democracy movement, Nobel Peace Prize winner Aung San Suu Kyi, is now in her fifth year of house arrest in Rangoon.

The Karen rebels who dominate what is left of the alliance have found themselves isolated because of Rangoon's policy of making ceasefire deals with elements of the grouping.

The 3,000 Karen soldiers and the 2,000 fighters of the Karennis and Mon ethnic insurgencies who remain are now vulnerable to the Burmese army's best troops. But Dr Marta insisted Rangoon would have to negotiate with the DAB, and not keep on trying to pick off opposition groups one by one.

Bank of Japan chief urges more deregulation

By Michiyo Nakamoto in Tokyo

Mr Yasushi Mieno, governor of the Bank of Japan, called yesterday for further deregulation of Japan's financial markets, to help Japanese banks write off their non-performing loans.

Pointing to the sluggish economy, Mr Mieno noted that further bad debt write-offs by the banks were necessary before the economy could pick up. A key to Japan's economic recovery was to create an environment for banks to write off their bad loans, thereby improving their balance sheets, he said.

In particular, it was worth considering whether the financial markets could play a role by providing a means for banks to securitise their non-performing loans, the central bank governor said. "The many functions of the financial markets, particularly the transfer of risk, played a major part in the recovery of US corporations. We must examine if there is room to use those functions in Japan's financial system."

But in order to do so, Mr Mieno said, Japan's financial system, including regulations, tax, and settlement and accounting procedures, would need to be revamped. Under present rules, the securitisation of bad loans is highly restricted, with no secondary market in Japan to trade such securities.

"Financial institutions should make their own best judgments" about how to write off their bad loans, but it was the responsibility of the authorities to "remove all obstacles in their way, creating an environment that will allow them to do so," Mr Mieno added. His call for greater market deregulation contrasts with the stance of Japan's Finance Ministry, which has been cautious about loosening its reins on the country's financial institutions.

In addition to returning the financial institutions' balance sheets to health, Japanese companies still had to complete the adjustment of stocks and their balance sheets after the excesses of asset inflation in the late-1980s. "Unless the economy goes through these adjustments, it cannot proceed to the next stage.

"Our stance is to carefully watch over the situation," Mr Mieno said.

Concerning prospects of another cut in the official discount rate, he believed interest rates were already low enough to support capital investment by Japanese corporations once such activity picked up.

His remarks came amid growing unhappiness with the government's handling of the economy.

A survey by the Nihon Keizai Shimbun, Japan's economic daily, found nearly 49 per cent of the 3,000 people polled were critical of the economic policy of Prime minister Morihiro Hosokawa, against 44 per cent who viewed the government's measures positively. Over half wanted economic measures to take precedence, compared with 38 per cent who thought political reform more important.

NZ growth rate estimate lifted

In a briefing to the incoming New Zealand government, the Treasury lifted its estimates of gross domestic product growth rate this year to between 3.5 and 4.5 per cent, Terry Hall reports from Wellington. In a forecast issued before the election, Treasury estimated GDP would grow by 2.9 per cent.

Names set to reject Lloyd's £900m offer

By Richard Lapper

Lloyd's of London yesterday offered lossmaking Names compensation of £900m in an bid to stave off years of crippling legal action, triggered by heavy underwriting losses over the last five years.

Early indications were that many of the worst affected Names, the individuals who have traditionally provided the market's capital base, were set to reject the offer and push ahead with litigation.

"We have stretched the society's resources as far as we could. This really is the maximum the society can afford at this time in its history," explained Mr Peter Middleton, chief executive.

"This is an inadequate offer and we are not prepared to accept it," said Mr Christopher Stockwell, chairman of the Lloyd's Names Associations Working Party, an umbrella group linking 17,000 Names in 38 separate action groups. Names are claiming more than £3bn in damages, mainly in action against their agents.

Leaders of individual action groups stopped short of condemning the deal outright but there seems little hope of their recommending its acceptance to members. "It leaves ruined Names ruined," said Mr Michael Deeny, chairman of the Gooda Walker Action group, which represents 3,000 of the worst-hit Names.

Lloyd's aims to fund the deal wih contributions of an estimated £400m from errors and omissions insurers, which cover agents against legal awards for negligence, and £50m in voluntary contributions from members' agents, which channel Names on to syndicates. The insurance market's authorities will supplement this with a payment of about £450m from its central fund, which pays claims when Names are unable to meet their obligations.

Names will receive individual offers, with compensation amounts reflecting the like-lihood of success of their legal actions as well as a series of other factors. Names on catastrophe reinsurance syndicates, which were hard hit by a series of disasters in the 1980s, have been offered the most favourable terms, with most offers between 30p and 40p for every pound of claims.

However, Names on syndicates which specialised in liability business and have lost heavily as a result of asbestosis and pollution awards, fare less well, with offers limited to less than 10p in the pound in many cases.

Names' leaders argue that errors and omissions insurers should have contributed more to the deal and that more efforts should have been made to obtain extra finance.

Names have until 31 January to decide on the deal.

Tests show up flaws in creative accounting

By Andrew Jack

In spite of telephone number salaries, many City analysts have proved incapable of understanding company accounts, claims an academic study released yesterday.

Just a handful of analysts could see through the most elementary creative accounting in a test of their scrutiny of financial statements.

Leading City institutions have had to toughen up their accounting skills considerably since the study was conducted at the end of the bull market in 1990.

The research was conducted on 63 experienced investment analysts at five City stockbrokers by Mr Gaétan Breton from the University of Quebec in Montréal and Professor Richard Taffler from the City University Business School in London.

Of 1,325 possible corrections they could have made in calculating financial ratios from a set of accounts full of "window-dressing", just 34 adjustments were made in total. Fifty-two analysts made no corrections.

But two-thirds of analysts said they had seen window-dressing in the accounts and 61 per cent believed, most incorrectly, that they had made the adjustments to remove these effects.

Prof Taffler said he believed the quality of accounting understanding may well have improved since the study was conducted, and that in the past there was less value in seeing through creative accounting.

Railway regulator seeks flexibility

By Charles Batchelor, Transport Correspondent

The contracts between the companies which take over Britain's railways from British Rail must be flexible but will need to be set in a legal framework, Mr John Swift, the new rail regulator said yesterday.

Mr Roger Salmon, the railways franchising director, has expressed a wish to establish a "no-fault" system of agreements, with companies regulating dealings by commercial contracts rather than the law.

"Certainty is an important element of justice and part of the benefit of any licencing system is it creates certainty, said Mr Swift. "People might want to pursue remedies for a breach of their rights."

Mr Swift said he was presently engaged in travelling round the rail system to see how it worked.

"The regulator has to achieve credibility in this new structure and it is not acceptable to sit in an ivory tower," he said.

The rail regulator's office at present consists of 15 staff but there are plans for it to increase to up to 100 with a budget of £5m. But the office must be seen to be lean and efficient. The final size of the office will depend on the demand for its services, Mr Swift said.

"If we get involved in a judicial review early on that will impose an additional burden on the regulator," he said. The office will have a legal adviser with three staff but most of its employees will not be lawyers.

UK-US air talks at 'critical stage'

By Paul Betts, Aerospace Correspondent

The UK and US governments yesterday started a new round of talks in London to try to resolve their dispute over transatlantic air services.

The UK has already warned Washington it would limit US airline services to London's Heathrow airport if the Washington administration sought to curtail the rights of British Airways in the US domestic market.

BA yesterday said it had been forced to postpone the introduction of its new joint service with its American partner USAir from London Gatwick to Charlotte, North Carolina, because of the uncertainty over its ticket code sharing rights with USAir.

This followed the US government's decision to grant BA only 60 day approval for code sharing services with USAir.

Under a so-called wet-leasing agreement, the Gatwick to Charlotte service would have been operated by USAir aircraft and crew in BA colours and uniforms.

The US government's decision to grant only 60 day approval provoked the angry UK reaction with the threat to cut the number of US airline services into Heathrow.

"The UK-US talks have now reached a critical stage," said Mr Lawrence Nagin, an executive vice president of United Airlines, one of the big three US carriers.

He warned that a trade war between the two countries would ultimately hit hardest the consumer because of the risk of fewer transatlantic services.

The US will be pressing the UK government during the latest round of talks in London this week to grant US carriers more access into Heathrow airport.

The UK is seeking an easing in US regulations on foreign ownership of US carriers.

Underground project begins four-year journey

Andrew Taylor on the logistics of London's Jubilee line extension

Ashley Ashwood

Roger Squire: The LDDC hopes the underground extension will lead to the rejuvenation of the Docklands area east of London

Construction of the £1.9bn Jubilee underground line extension begins in London this week as building work on another great engineering endeavour, the Channel tunnel, draws to a close.

Today the first giant piles for the Canary Wharf underground station on the Isle of Dogs are due to be sunk, signalling the start of an enterprise which will take more than four years to complete and provide employment for 22,000 workers. The London Docklands Development Corporation hopes the project will lead to a rejuvenation of the area, but Mr Roger Squire, assistant chief executive, warns it will not happen overnight.

Two days later, British and French contractors will take part in another ceremony – to mark the handover of the channel tunnel by construction companies to Eurotunnel, which will operate it when it opens at last next Spring.

London Underground will be hoping that it won't repeat Eurotunnel's experience. The Channel tunnel is due to open almost a year later than planned and will cost more than double its 1987 estimate of £4.7bn, after interest payments.

The 10-mile Jubilee line extension, with 7¼ miles in twin single-track tunnels, is a much smaller project than the 31 miles long Channel tunnel. However it will involve the disposal of 1.4m cubic metres of clay, sand and gravels compared with the more than 6m cubic metres of spoil removed from under the Channel.

Contractors are expected to use 22,500 precast concrete tunnel and shaft linings, 8,000 iron linings, 500,000 cubic metres of concrete, 53,000 tonnes of steel reinforcement, 4,900 tonnes of rail track and 57,000 sleepers.

Building materials and spoil will have to be moved through one of the world's busiest capitals. Barges on the River Thames will be used to transport much of the goods and up to 60 per cent of the spoil.

Hugh Doherty, project director, says lessons have been learned from other large railway tunnelling jobs including the Channel tunnel and the Hong Kong and Singapore mass transit railways.

Most of the contracts for the underground extension, signalling and rolling stock have been let to consortia containing companies from Britain, Japan, Germany, France, US and Canada – although London Underground says 60 per cent of civil engineering and more than 80 per cent of mechanical and electrical contracts went to UK companies.

The mix of clays, sands and gravels through which the track passes, up to 100 feet below the surface, demand various tunnelling techniques on different parts of the line.

London clay, impervious to water, is very good for tunnelling; tunnels passing through Thanet sands can become water-logged very quickly. Thames Water almost lost a tunnel boring machine worth several million pounds when it unexpectedly broke through clay into Thanet sand while digging the London ring main in the late 1980s. The surrounding land had to be frozen so that the machine could be dug out.

To prevent settlement, engineers will pump a cement grout, often mixed with bentonite, into the ground above and ahead of where the tunnel is being dug. Surveys of more than 3,000 buildings are being undertaken to make sure the right construction techniques are used and that properties will not be damaged.

Some £200m has been spent even before construction starts this week. London Underground will be hoping that this has bought it peace of mind.

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NEWS: UK

Late payments hitting exporters, study shows

By Richard Gourlay

British exporters are facing increasing delays before they are paid by Continental European customers, according to a study published yesterday by the Association of British Factors and Discounters.

Italian companies have replaced the French as Europe's slowest payers, settling invoices in an average of 130 days compared with 95 days a year ago. Normal payment terms in Italy are 60-90 days. French companies paid on average after 121 days, six days more slowly than last year.

The study lends support to the theory that recession encourages late payment. The record of German companies, normally considered prompt payers but which are suffering from recession, deteriorated sharply. They settled on average after 55 days compared with 50 days last year.

By contrast UK companies are paying more quickly as the economic recovery gathers pace. Payments were received by the ABFD's members in an average 59 days compared with 62 days last year.

"It is ironic that just as the picture starts to improve for British companies at home their struggle to get paid abroad gets tougher," said Mr Ben Allen, ABFD chairman.

The study is compiled by a group of leading European factoring companies which advance companies cash against unpaid invoices. Together they handled payment collection for more than 20,000 small and medium sized companies.

Italy, France and Spain also emerge as the European countries with the worst bad debts record. Italy had bad debts equal to 4 per cent of sales in 1993, France 3 per cent and Spain 2.5 per cent.

Dutch companies were the promptest payers settling after 50 days compared with 45 days a year ago and normal payment terms of 30 days.

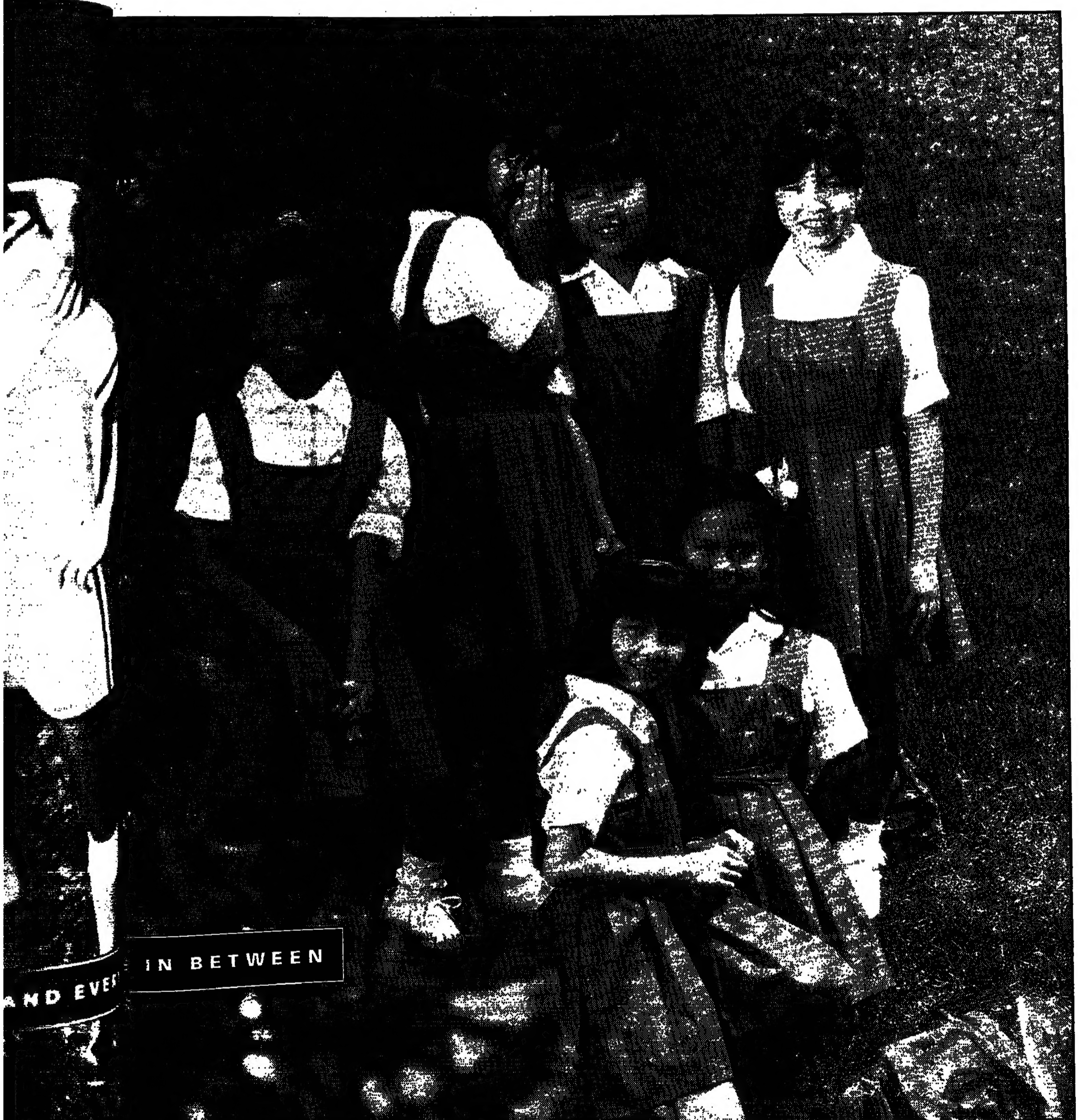
The lowest bad debt rates were in Switzerland and the UK. These two countries were the least bad payers after the Netherlands.

The smallest companies appear to be worst hit. "Profit margins are being squeezed because many European customers are now offering payment on time only if their suppliers accept sizeable discounts", the Association says.

In Spain and Italy, for instance, these discounts were commonly 10-20 per cent and the practice was spreading to companies in Germany and the Netherlands.

Reuter

Police and demonstrators clash on Wanstead Common in east London yesterday during a protest at the destruction of a 250-year-old chestnut tree which blocked a £200m link to the M11 motorway. Several people were injured before 200 police threw a cordon around the tree as it was cut down



Britain in brief

Warning of 'pause' in UK recovery

Britain's economic recovery could pause in the spring when tax increases announced in last week's Budget take effect, Mr Alan Budd, the Treasury's chief economic adviser, said yesterday.

However, he told the Commons Treasury and civil service committee that the Budget, which will add £1.68bn to £6.73bn of tax rises already planned for 1994-95, was not intended to be deflationary.

Mr Kenneth Clarke, the chancellor, decided to tighten fiscal policy to ensure that the recovery continued, Mr Budd said. While there was uncertainty over consumers' reaction to tax increases next April, the Budget could have a positive effect on confidence. In addition, the "very considerable" fall in interest rates since September 1992 was having a powerful effect on demand.

In forecasting growth of 2.5 per cent next year, rising to 3 per cent a year by 1996-97, the Treasury expected investment and exports would play a bigger role in supporting activity in later years, Mr Budd said.

London top-up to be abolished

The government is to abolish the London Weighting allowances of up to £1,776 a year paid to all UK civil servants working in the capital.

The Treasury proposes to replace the allowances with a payment of up to £3,000 a year targeted on particular groups of staff which are hard to attract. It will be payable in any part of the country where the civil service has problems in recruiting and retaining staff.

Moslems slam school results

Moslems underperform in English and Welsh state schools, the self-styled Moslem Parliament of Great Britain said yesterday.

Using the government's school performance tables for GCSE exams, published last month, it said Moslem children were in schools which "have some of the worst results nationally and locally".

The group said the government's decision to reduce the weight given to ethnicity in the formula used to distribute grants to local education authorities, announced last week, would diminish investment for schools in Moslem areas.

RAF set to mothball base

The Royal Air Force is to axe advanced jet training at Chivenor in Devon and mothball the base, centring advanced training at RAF Valley on Anglesey in north Wales.

The government said 119 civilian and 779 service posts would be affected – civilian redundancies would be "kept to a minimum."

Council TV service begins

The Local Government Network, a new satellite television service, was launched yesterday with a lively discussion on the impact of the budget on local government.

The service, transmitted by BT, plans to have 25 live two-hour television programmes a year.

The LGN service will be provided every fortnight to local authorities and councils in England and Wales.

LGN's programmes are produced by CTN, a joint venture between Independent Television News and Burson-Marsteller, the communications consultants. LGN is owned jointly by First Eurinvestment, a pan-European investment group, Scientific Atlanta UK and the Association of District Councils.

Textile jobs for Ulster

Adria, the Ulster textile company, yesterday announced the creation of 400 jobs in two projects in the north-west of the province.

A total of 250 jobs will be provided by the expansion and refurbishing of Adria's Campsie factory, near Londonderry, to design and make lingerie. The other 150 jobs will be created in a new 50,000 sq ft factory at Strabane. The projects are expected to be fully operating by 1996.

The £8.5m investment is backed by the Industrial Development Board.

Anfield's Kop to be seated

Plans to build an all-seater stand on the famous Spion Kop at Liverpool's Anfield football ground were yesterday approved by Liverpool City Council.

The new stand will seat 11,800 fans and include a club shop, bars and offices. The work is expected to be completed between next April and the end of December.

Workplace stress increasing 'sharply'

By Richard Donkin, Labour Staff

Stress at work is increasing sharply and should be recognised officially as a health and safety issue, a report urged yesterday.

Professor Tom Cox of Nottingham University, who prepared the report for the Health and Safety Executive, said the problem needed government recognition if employers were to tackle it effectively.

The report, published ahead of HSE guidelines due out next year to help employers manage stress at work, recommended further research into the problem, along with training for employers.

The recommendations come at time when growing numbers of employees are seeking compensation from their companies for stress-related illnesses. Several test cases are due to come before the courts.

Mr Alistair Anderson, managing director of Personal Performance Consultants UK, which has contracts with 60 companies employing 130,000 nationwide, said he had noticed a disturbing number of suicides involving work pressures.

"I believe the demands on the workforce are greater than they have ever been," he said, adding that stress-related problems had grown more severe in the past two years.

Prof Cox's report identified excessive periods of repetitive work, lack of management support and overdemanding work schedules as contributory causes of stress.

Added factors were low pay, poor relationships with managers, lack of variety, shift working, long hours, job insecurity and conflicting demands of work and home.

Caution urged on genetic information

By Clive Cookson, Science Editor

Insurance companies were urged yesterday not to require people to disclose results of genetic tests until the UK has an agreed national policy on the use of genetic information.

But the Association of British Insurers said the proposed moratorium was unnecessary, as companies did not use genetic screening for life insurance purposes.

Launching Britain's first in-depth report on the ethics of genetic screening, the Nuffield Council on Bioethics called on the government, health professionals, employers and insurers to agree measures to protect people "against the potentially adverse effects of screening, including the misuse of confidential information, the risk of social stigma and the possibilities of eugenic abuse in the future."

Action is urgent, the report says, because medical researchers are rapidly developing simple genetic tests for inherited diseases ranging from cystic fibrosis to some forms of cancer.

"It will soon be possible to screen for hundreds of diseases," said Dr Peter Harper, professor of medical genetics at the University of Wales, Cardiff, and a member of the Nuffield committee – a group of scientists, doctors, legal and ethical specialists.

Insurers have a policy not to require applicants for life or health policies to undergo genetic tests. But the council wants companies to "accept a temporary moratorium" on asking people to disclose existing genetic information. Currently, genetic test results have to be declared like any other medical information.

Last week's Budget should inspire companies to explore new ways of reducing absenteeism, says **Richard Donkin**

Prognosis for sick pay

Managements in the UK last week were given the sharpest of nudges to look hard at their sick pay policies. The prompt came in the Budget announcement that the government plans to abolish the 80 per cent reimbursement of large employers' statutory sick pay costs from next April.

While some companies may choose to cut their sick pay benefits, most will probably do as the chancellor suggested and use the removal of SSP as an incentive to improve their management of sick leave and to take greater interest in the health of their employees.

At present employers pay SSP for up to 28 weeks to employees who are sick for at least four days in a row. Two rates are payable. Employees earning £195 a week or more are paid at a weekly rate of £52.50. Employees earning between £56 and £195 are paid £46.95 a week.

These payments will from next April be borne entirely from the company's own resources, although overall the reductions in employers' national insurance contributions should more than absorb this cost.

Smaller companies got a better deal in the Budget. In regulations to be laid after the passage of the Statutory Sick Pay bill, companies with annual National Insurance contributions of less than £20,000 will be able to recover 100 per cent of statutory sick pay after four weeks of an employee's illness.

In practice most big companies top up statutory sick pay. Some have schemes which pay three months' full pay and three months' half pay. Better schemes tend to give six months' full pay and six months' half pay.

Some companies have introduced incentive and bonus schemes to try to cut absenteeism from sickness, which cost UK business £13bn in 1992 according to a report published in May. The report, "Too Much Time Out?" by the CBI in association with consultants Percom, said each worker lost an average of eight working days because of sickness in 1992, representing 3.5 per cent of working time. The absence rate was higher among full-time manual workers, who lost twice as much time as full-time non-manual workers.

This discrepancy has led to difficulties in harmonising sick pay schemes at some companies. Traditionally, clerical staff receive full pay from day one when they take time off for sickness but unless companies have a top-up scheme, blue-collar workers are not compensated for the first three days of absence before they can draw statutory sick pay.

British Gypsum, which harmonised its schemes in 1989, saw absentee rates rise from 4½ per cent among manual workers to 14 per cent at some sites.

The company reverted to two schemes. But it introduced an incentive element to allow manual workers to cross over to the clerical scheme after a five-month qualification period. If they are absent for no more than two periods totalling two days each they will automatically be taken on to the staff scheme. "The idea is that we are working towards full harmonisation but it has been better to do it gradually," says the company. Now overall absence rates are down to 3½ per cent.

Vauxhall, the UK car maker, has reduced its sickness absenteeism from 8.8 per cent in 1986 to 4.5 per cent today. This was after the company introduced a negotiated incentive scheme which saved employees about £4 a week in contributions to the company sick pay scheme if average levels of sick leave could be kept at or below 5 per cent.

Iveco Ford in Slough introduced an incentive scheme two years ago after sickness absence levels among hourly paid workers had reached 7 per cent. The company set targets for reducing rates across the workforce which would trigger the introduction of sickness payments for the third, second and finally the first day of sickness.

"For the five months up to the end of November the rate has been 2.8 per cent so it is looking like we might make the target at the end of December when the rate is reviewed," says John Eskdale, personnel manager of the company's industrial operations. "The big test will come when we start paying day one."

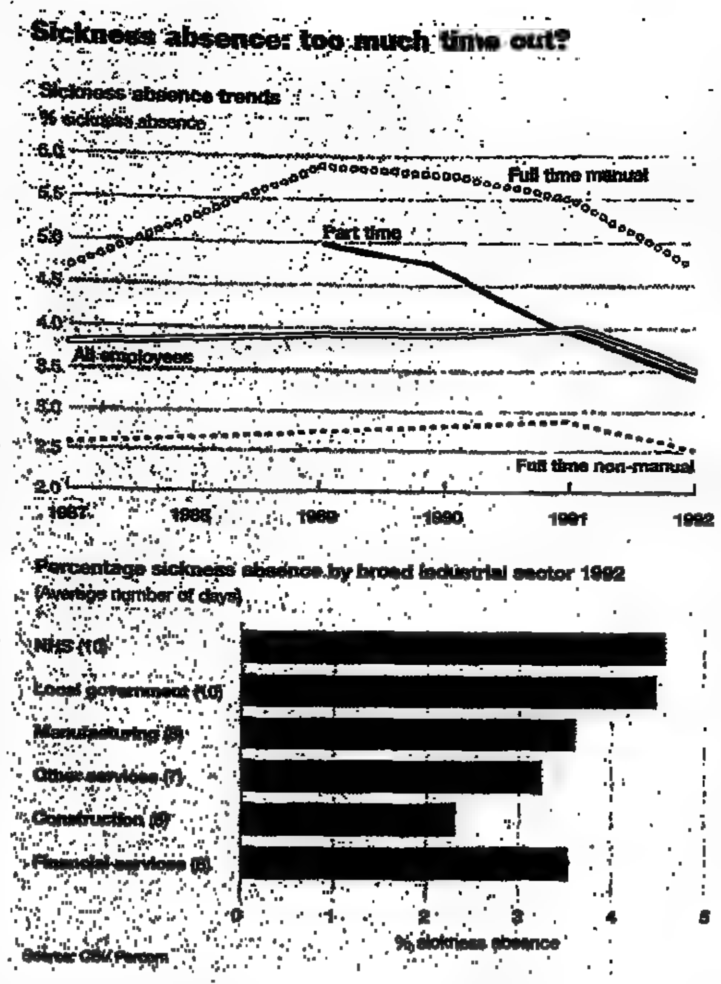
Many personnel experts believe that discriminating between hourly paid blue-collar workers and salaried staff is increasingly difficult to justify.

One of the best ways of producing immediate improvements, according to Angela Baron, a policy adviser at the Institute of Personnel Management, is for middle managers to monitor absenteeism. "The experience of companies that have started monitoring sickness absence is that the very fact that they have started paying attention to it is enough to reduce the absence rates in their companies," she says.

Experts believe fear of unemployment has contributed to declines in absenteeism in the UK, but there is strong evidence that management action can deliver results. An Audit Commission study of 10 London councils in 1990 found sickness absence was averaging more than two and a half times the national norm. A follow-up report earlier this year found that by monitoring and managing absenteeism the councils had succeeded in cutting days off from an annual average of 18.7 days per employee in 1990 to 11.5 days in 1991-92.

Many factors underlie improved absence records, but whether it is knowing that someone in management cares or fearing that they are watching, both approaches seem more effective than the alternative of managerial neglect.

Judging by the Swedish experience, government action can also be a powerful stimulus. Removal of state sick pay for the first two weeks of absence in Sweden this year led to shortages of flu vaccine as companies clamoured to instigate vaccination programmes in order to keep down costs. Driven partly by the rapid growth in unemployment Sweden's absenteeism has fallen in three years from levels where three out of 10 workers were on sick leave at any one time to less than one in 10 today.

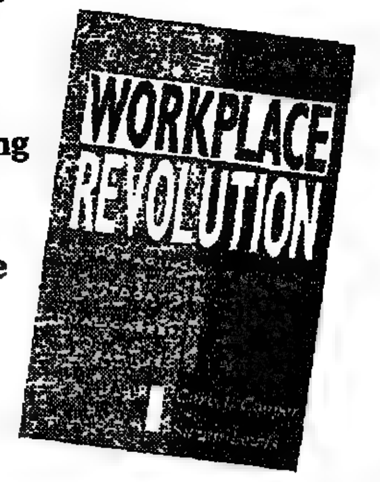


BOOK REVIEW

Life and times of the ditkies

By Lucy Kellaway

'This is not another book about the problems for working mothers. The wants and needs of both men and women are changing, yet most companies expect their workers to behave as before'



Howard Davies, director-general of the Confederation of British Industry, and his television producer wife, Prudence Keely, are happy ditkies (double income, two kids). Other couples might be ground down by the demands of big jobs and tiny tots, but these two find them rewarding and rejuvenating.

So much so that they have written a curiously positive foreword to *The Workplace Revolution**, a book which chronicles the woes of dual-career couples. The opening anecdote tells of a chance meeting between Davies's small son and his much-loved former nanny in a supermarket. The child was unmoved, but the nanny burst into tears. This is meant to show that preconceptions about childcare can be wide of the mark. Instead it leaves the impression that Davies, Keely and family, unlike the other examples in the book, are having it all and loving it.

The contention of the authors, Cary Cooper and Suzan Lewis, is that the way in which people work has changed forever. More women work full time in areas once dominated by men, and more return to work after having children. Men no longer have full-time wives providing domestic support, and so are under pressure to help at home.

Yet this is not another book about the problems for working mothers. The wants and needs of both men and women are changing, yet most companies expect their workers to behave as before. The result is conflict for all sides.

Cooper and Lewis have interviewed 400 dual-career couples to find out where the main areas of friction lie. These turn out to be many and various: the working day is too long, and the macho work ethic too entrenched. Couples find their schedules are inflexible. They find the cares of work are spilling over into home time, and domestic concerns are getting in the way of work.

When children arrive the problems get worse. Women find themselves missing out on promotion and feeling constant guilt. Every time the child gets ill or something goes wrong, the load of guilt increases.

The book bristles with examples of each of these well-known problems. Sally works in a big department store where staff need written permission from two managers in order to leave early. She lives in constant terror of being unable to respond quickly should her child fall ill.

While the problems sound all too common, what is less familiar is the variety of ways in which couples cope. The book contains many examples of new men – rather more than one meets in real life – ensuring that the strains are shared equally. One London-based small businesswoman persuaded her husband not to accept a job in Scotland on the understanding that next time it would be her turn to be flexible. Another couple, Lynda and John, share a job as social workers and take it in turns to look after the children.

Despite these examples, the authors do not pretend that everyone should be like Lynda and John. Indeed they believe that there is no right way to handle the pressures. They argue that unless organisations change their ways, these problems will not go away, no matter how many new men there are.

They have drawn up a shopping list of corporate policies which would help. Companies should conduct stress audits and discourage workaholic behaviour. More important, they should recognise the value of giving people increased control over the number of hours they work, which means they should place greater trust in their employees. Companies should offer more training in time management, assertiveness and stress management. They should accept that family decisions are a part of career planning.

Above all, what is needed is a rethink of what constitutes the ideal employee and the ideal career pattern. All change in attitudes takes time, yet the authors are optimistic that change is possible, indeed inevitable.

Cooper and Lewis put forward the standard argument that it is in an employer's economic interests to have an unstressed workforce. Yet they seem to assume that the list can be bought for nothing. A more persuasive argument for change may be needed, especially at a time in which companies are loading extra demands on their workers.

**Kogan Page. pp184. £9.99*

This is the first in a regular review of management books.

BUSINESS AND THE ENVIRONMENT

Investors are taking more notice of the world around them, but not at the expense of profit, says **Peter Knight**

A taste for green chips

Given a choice between helping the environment and making money, most members of the financial community would choose the latter.

But they are being forced to take more notice of the world around them as environmental issues move from the fringes of the investment world to the centre. The proponents of greener decision-making argue that it is in the financial sector's interests to take more notice of such issues, thus reducing environmental risk in their own transactions and helping to preserve the environment.

Those urging change cite US government research showing that a company's share price drops by an average of 0.43 per cent – small but noticeable – in the week after the announcement of an environmental violation. More severely, insurance companies have felt the impact of global warming, blamed for much of the windstorm damage which has cost them $44bn (£29bn) since 1987.

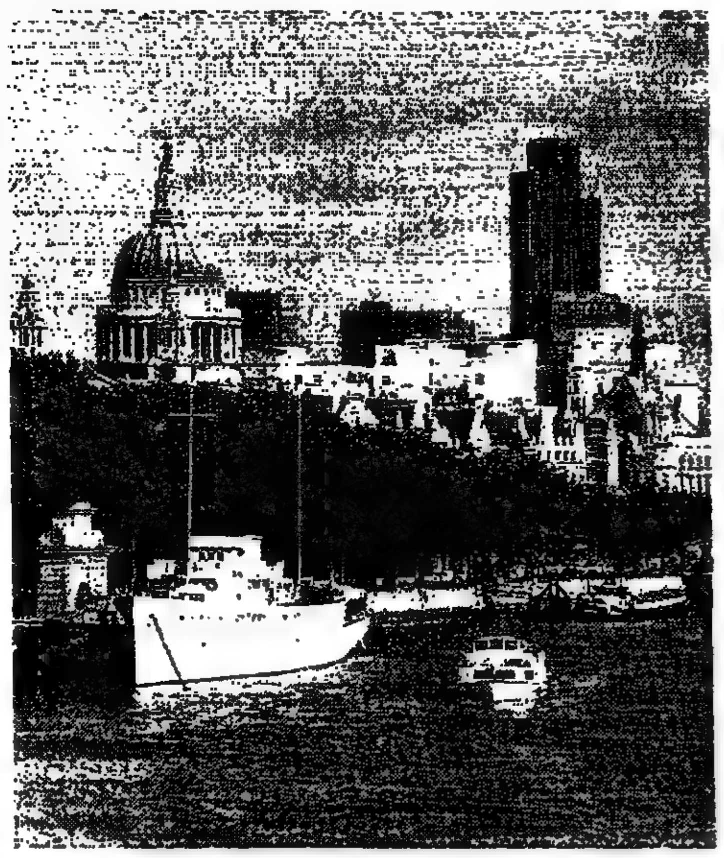
The pressure for change in the financial arena comes from several directions. In Europe, there are moves to make investors and lenders responsible for some of the environmental liabilities of their clients. The biggest worry centres on extended legal liability for environmental damage.

Alarm at the huge but unquantifiable risks this might bring is motivating some business and financial groups to push for a new approach. Among these are: the government's Advisory Committee on Business and the Environment (ACBE); Business in the Environment, backed by Prince Charles; and the Geneva-based Business Council for Sustainable Development (which represented world business at the Rio Summit).

Further pressure comes from several influential pension funds – especially in the US but increasingly in the UK – which are starting to question the environmental performance of companies in which they invest. Environmental campaigners, from single-issue groups to influential organisations such as Greenpeace, are also beginning to turn their attention to financial managers.

Fisons of the UK stopped extracting peat from areas of scientific interest after a campaign by environmentalists. Three months ago, UK fund managers received an environmental analysis from groups criticising a flotation by Barito Pacific, an Indonesian timber company.

Stimulating environmentalists' interest in the financial sector is their belief that their organisations can influence those obtaining loans, investments and insurance. Many in the financial community, however, reject accusations that they ignore the environment.



Trevor Humphries

London's financial community is being forced to consider environmental issues

"We take the environment very seriously. After all, the UK insurance industry is on line for thousands of millions of dollars of liability," says Francis de Zulueta, chairman of the Financial Institutions Environment Liability Development Group, linking UK insurers.

"These issues are now taken incredibly seriously and there is a much greater awareness of the risks and costs," says Derek Wanless, group chief executive of National Westminster bank and chairman of ACBE. But while banks and insurers might be aware of the potential liabilities, especially from past pollution incidents and contaminated land, investors are less convinced by arguments that they should be more choosy about which companies they select.

"There is certainly a feeling that because there are lots of costs and risks related to the environment, those businesses who understand it will benefit," adds Wanless. "But investors feel there is little direct evidence that environmental attitudes work through to give clear business benefits."

"We are willing to take environmental issues seriously, but the risks and rewards can take years to appear and can be difficult to measure," says Eleanor Burton of Mercury Asset Management. Moreover, even if investment managers wanted to include a bigger range of green issues in their decision-making, they do not have the tools and information (see accompanying feature). Companies have few obligations to report on their environmental liabilities and the emerging practice of reporting on environmental performance (such as reductions in plant emissions) has yet to produce evidence that markets can use.

This could change if governments made companies report in a standard, comparable format or investors made similar requests; both seem unlikely. There is, however, evidence that financial auditors are beginning to shift away from a purely historical perspective towards one of viability.

But change is slow in accountancy. Although environmental reporting is the subject of voluntary initiatives in Europe and the US, the results are unlikely to be immediately useful to the financial community.

"The EC's fifth action plan on the environment talks about changing the whole basis of accounting, but nobody appears to be doing anything about it and there is a profound reluctance, especially in the UK, to take it on board," says Rob Gray, professor of accounting at Dundee University and author of *The Greening of Accountancy*.

But the financial sector has clearly acknowledged that its risks have been increased by bad or inadequate environmental performance. This realisation has been largely driven by the threat of extended legal liability.

The insurance industry, nursing huge losses from US pollution claims, has also reacted. Gradual pollution is now excluded from public liability policies. "And most direct insurers now have a hefty exclusion for pollution liability from their re-insurers," says de Zulueta.

But this reflects a purely negative response and the financial sector has yet to do anything positive to create change. "The insurance industry is certainly in a strong position to influence clients and the businesses it invests in," says de Zulueta. "But it would lose competitive advantage if it was to select investments purely on environmental grounds."

Jeremy Leggett, a climate change and insurance specialist at Greenpeace, agrees that this would cause difficulties, but says it remains the ultimate aim. Many campaigners say selective investment is too complex and could be counter-productive. They feel a valuable first step is for investors to impress upon managements of the companies in which they invest the need for a sound environmental performance.

Financial markets count the cost

David Lascelles examines the need for a clear yardstick against which to measure risk

The financial markets have frequently been accused of ignoring the environment. The accusation comes mainly from those who think bankers and investors should play a more positive role in promoting environmental values.

Is there any truth in the charge, and if so what should be done about it? It is certainly the case that environmental factors make little impact on the price of either credit or equity.

That much was admitted earlier this year when a group of financiers appointed by the UK government to advise it on environmental issues reported: *"Institutional investors have yet to focus fully on the value of environmental data in assessing companies' prospects."*

But it would be wrong to say that the financial markets ignore the environment completely. They have all suffered shocks of various kinds: pollution disasters, green litigation, and the tidal wave of environmental regulation which has swamped the corporate world. The point, however, is that all these effects have been negative.

So far as the financial markets are concerned, the environment is all about expense and annoyance. The more "green" a company is, the more it is likely to be loaded with environmental compliance costs.

Many companies claim their green investment gives them a competitive edge in a world where regulation and public opinion favour environmentally sound business. But the markets tend to ignore this "upside" while doing everything they can to avoid the downside. The green funds are a force pushing in the opposite direction, but their goals are far from united, and their impact is questionable.

The markets cannot be blamed for behaving as they do. They have no moral obligation to support environmental values if they cannot perceive them. This may be due to their short-sightedness, as many critics claim. But hurling this charge at them will not convince them that greenery is good.

However, if markets are doing the natural thing in viewing the environment largely in terms of risk, there is one important aspect in which they still act against their own best interests. This is in failing to distinguish between different levels of environmental risk.

The attitude is one of all or nothing. A company is able to secure pollution insurance one day, only to find that owing to a new pollution law or some environmental disaster, the market clams up the next. The same is true of banks: the fear of environmental liability led thousands of US banks to shut their doors to sensitive sectors like chemicals and petrol stations.

This is uncharacteristic of financial markets, where the ability to grade risk is one of the driving forces behind prices. One

For the financial markets, the environment is about expense and annoyance

of the main problems is lack of information: it is hard for markets to make sophisticated judgments when the information is absent or inconsistent, and when so much depends on the vagaries of the law courts, regulators and consumers.

Some progress is being made through eco-auditing and the growing practice of publishing environmental company reports. Attempts have also been made to rate companies by how "green" or environmentally benevolent they are. But these ratings are of little use to the mainstream markets which only want to know whether a company's environmental liabilities will cost them money.

What the markets really need is a clear yardstick against which to measure environmental risk and rate companies according to the danger of environment-related loss. Such a scheme can be envisaged. It would have to address two basic questions about the company being rated.

The first is, how large are its environmental liabilities? This would be answered by combining the growing body of publicly available information (pollution registers, court actions, eco-audits etc.) with a judgment about the quality of a company's environmental controls.

The second is how well placed is the company to absorb environment-related losses? This would be answered by reference to the overall strength of the company. Thus a company with large environmental liabilities but a strong balance sheet might earn a high rating – which would upset environmentalists but provide the financial markets with the information they needed.

Some people will doubtless dismiss such a scheme as superfluous because the markets would automatically discount these risks – if analysts and credit rating agencies were doing a proper job.

Not necessarily. The point about the environment is that it represents a body of pressures – regulatory, legal, political – based on a common set of values which move independently from normal economic forces: an economic recovery could be accompanied by a regulatory crackdown on pollution, for example.

There are enormous technical obstacles in creating such a scheme, not least who would operate it and pay for it. It will also strike many as a negative way of addressing an issue which is essentially about "good" values. But the obstacles are not insuperable, and if the scheme identified environmentally risky companies more clearly and priced them accordingly, it follows that sound companies would benefit.

This article is extracted from Rating Environmental Risk, published by the Centre for the Study of Financial Innovation, 18 Curzon Street, London W1Y 7AD. Tel 071-493 0173. £25/$40.

PEOPLE

Freshfields attracts more foreign blood to its partnership council

Freshfields, the international law firm that invited Sir John Nott on to its partnership council in 1991, has persuaded Herbert Jacobi, chairman of the managing partners of investment bank Trinkaus & Burkhardt in Düsseldorf, to become its second non-executive member, thereby adding an extra European perspective to the deliberations of the strategy forum.

The introduction came via Peter Opitz, a partner in Freshfields' Frankfurt office. Opitz knew Jacobi from the 1970s when both had been managing partners of BHF Bank, the merchant bank. A Frenchman, the managing partner of Freshfields' Paris office, its largest overseas operation, already sits on the council.

John Grieves, Freshfields' senior partner, found Jacobi "awfully likeable and very experienced". He says the presence of outsiders "helps us to dilute our insularity". Few law firms have such an arrangement, and Grieves remembers the concerns voiced in his own stable before Nott joined. "We were initially worried that the presence of non-executive members might alter the whole nature of the debate. We also wondered whether the job would actually be sufficiently interesting for them."

Freshfields has been after Jacobi for a long time; talks were suspended when HSBC Holdings acquired Midland, which owns 70 per cent of T&B, causing Jacobi to be more than thoroughly occupied bedding down the new relationship. The council meets for a whole day four times a year.

A native American who is half German, he worked with Chase Manhattan Bank before joining BHF. As well as being president of the Düsseldorf stock exchange, he is a non-executive director of Gillette, of Braun, its German subsidiary, and of Amtrol.

■ **Bob Smith**, 45, is to join the main board of BRAMMER, the industrial services group. He is currently managing director of BSL, Brammer's UK distributor of ball-bearings and power transmission products. He will also become chairman of the group's precision engineering businesses, BSL Engineering and Brammer Mecanique.

Roy Thornhill, 58, will retire in May, having served more than 28 years with Brammer. He has relinquished the role of executive director responsible for European distribution, but will remain on the board. He will continue to advise on Brammer's distribution businesses until his retirement.

■ **Richard Case**, md of Westland Helicopters, and **Chris Gustar**, md of Westland Aerospace, have been appointed to the board of WESTLAND GROUP.

■ **Roger Turner**, formerly finance director of Evans Medical, has been appointed finance director of the London, Tilbury and Southend division of NETWORK SOUTHEAST. **Richard Norton** has been appointed director of finance at BR Telecommunications in succession to Simon Gunn who has moved to Gatwick Express.

■ **Ingrid Jones** has been promoted to md of IHT Distributors in succession to Yves Bonneaud who is joining Hachette in January.

■ **John Szymkiw**, formerly finance director, has been appointed md of FOGARTY, the mbo from Coloroll.

■ **David Hindson**, formerly business systems and logistics planning director of GrandMet, has been appointed director of information services at NFC.

■ **Sara Stilliard**, formerly marketing manager at Sage, has been appointed marketing director of Crosby Kitchens, part of NORCROS.

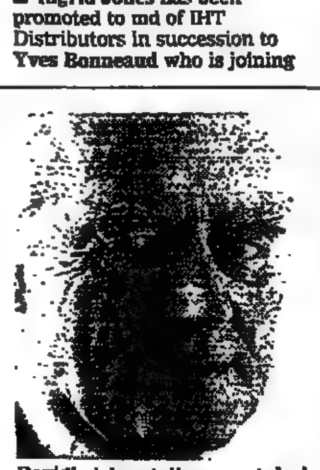
■ **Ian Gibb**, who has commanded Sea Princess, Royal Princess, Island Princess and Canberra, has been appointed the first Captain of P&O's new liner, Oriana.

Robins takes Plastow's place at C&W

Sir David Plastow, who took over as chairman of Inchcape in September 1992, has decided to reduce his range of outside directorships and will step down as a non-executive director of Cable and Wireless at the end of the month.

Sir David, who is also deputy chairman of Guinness, the TSB and BUPA as well as being chairman of the Medical Research Council, joined the board of Cable and Wireless in 1991. Some six months later he was asked to take over the chairmanship of Inchcape following the death of Sir George Turnbull.

Inchcape, an international services group, operates in over 80 countries and Sir



David's job entails a great deal of overseas travel – which explains his decision to resign the directorship of Cable and Wireless. He stepped down from the board of Tenneco, the US conglomerate, last year.

His seat on the Cable and Wireless board is being taken by a former colleague – Sir Ralph Robins, chairman of Rolls-Royce (above). Both Sir David and Sir Ralph started their business careers in different parts of the Rolls-Royce empire in the mid-1950s. Sir David came up through Rolls-Royce Motors and Sir Ralph made his name on the aero engine side of the business. After Rolls-Royce was bailed out by the government in the 1970s, their careers diverged.

Although they both remain good friends and are of the same age, Cable and Wireless stressed that the appointment of Robins was a coincidence. Sir Ralph, 61, had been vetted by Cable and Wireless's nominations committee and he had been interviewed by all the non-executive directors. He will join the board next April.

■ **Barry Walker** has resigned from DIPLOMA.

■ **Anthony Passmore** has resigned from JOS HOLDINGS.

Insurance moves

■ **Ian Wrigglesworth** has been appointed a director of BOWRING Aviation; **John Hitchcock** and **David Plymen** have been appointed directors of the marine and energy division of Bowring Marine; **Tim Haynes** and **Mark Hardinge** have been appointed directors of C.T. Bowring Space Projects.

■ **Jay Cogswell** has been appointed a director of BAIN CLARKSON's international division.

■ **Dick Micklem** has been appointed financial director of SOREMA (UK); he moves from Ernst and Young.

■ **Susan Howard** has been appointed a director of Berkeley Burke (Northern), **John Potter** a director of Burke Ford Insurance Brokers, **Kevin McNeilly** appointed a director and **Michael Boyle** finance director of Burke Ford Insurance Brokers, all part of the BURKE FORD REED Insurance Management Group.

■ **Dunlop Stewart** (above left) formerly head of direct sales, UK Life for Norwich Union, has been appointed assistant general manager marketing (direct sales) for STANDARD LIFE.

■ **Michael Dixon** (above right) has been appointed finance director of Gibbs Hartley Cooper, a part of HSBC HOLDINGS; he moves from Price Waterhouse.

■ **David Bellamy** is appointed operations director, **Lionel Davis**, director - north, **John Newman**, director – south, and **Trefor Parry**, finance director, all on the main board of J. ROTHSCHILD ASSURANCE.

■ **Janice Hook** and **Simon Kenney** have been appointed directors of ASHLEY PALMER & HATHAWAY; they join from the Archer and Wellington Groups, respectively.

■ **Simon Edwards** has been appointed underwriting director and **Anthony Young**, formerly md of C.I. de Rougemont & Co, a director of PIERI (UNDERWRITING AGENCIES).

■ **Sophie Chambers** and **Joanna Sorrell** have been appointed to the board of BRADSTOCK Hamilton.

هكذا من الاصل

Television/**Christopher Dunkley**

Different ways of going over the top

One really enjoyable series can be all it takes to banish boredom with television. *To Play The King* is currently serving this function and brightening up everything remarkably. Some have complained that it is more far-fetched than the original series, *House Of Cards*, and accused it of "going over the top" which is a bit like complaining that *The Bill* is preoccupied with police procedure. Of course it goes over the top, that is its purpose and its charm. But since it was in *House Of Cards* that Ian Richardson's diamond-hard schemer of a politician established his habit of delivering Shakespearian asides, and in that same series that he shoved his young mistress off the roof of the House of Commons, it is difficult to sustain the argument that a story which began staid and sober has now become ludicrous.

Its strength comes from the fact that, although its comedy is achieved by exaggeration in the manner of a caricature, it is not all that far removed from reality. When you remember such recent stories as the cabinet minister parading before his mistress in Chelsea strip, the princess cavorting topless with her financial advisor, and the prince on the telephone musing on the desirability of being his lady friend's tampon... well, parody becomes problematical. As for the po-faced protests that this television drama damages the royal family, the reverse seems true. The king, whose identity cannot be in doubt once you see how Michael Kitchen has captured 'Charles' nose-stroking mannerism, is just as clearly the hero as Francis Urquhart is the villain. Surely only those with a defective sense of humour or an exaggerated idea of the fragility of the British constitution could take such complaints seriously. It is a splendid romp combining in the modern idiom the healthy ridicule of Rowlandson with the political shenanigans of Trollope.

It is difficult to imagine such a series being made by the new ITV. The days of larger than life characters such as Lew Grade and Sidney Bernstein at the helm of the ITV companies have gone. Those men were fascinated by the business of creating programmes, but their successors seem to be obsessed with a programme for creating business. Given that many of these new chaps, unlike the ITV knights of old, actually rose from the ranks of programme makers, this is a little ironic.

In British television today there seems to be a fixation on the idea of creating broadcasting companies big enough to compete in the international market place. Everybody is asking "If LWT bids for Yorkshire, what happens to Tyne Tees?" or "When Carlton takes over Central what will happen to the share price?" We are even being urged to think about scrapping the licence fee (one of the best bargains in Britain) and turning the BBC over to commercial operation because that would create a world-class player on the broadcasting stage. What nobody bothers to ask is "What would this concentration on size and commerce mean in programme terms for the British audience?" Presumably the reason they do not ask is because the answer is obvious: programmes would get worse. ITV programmes have already got worse as a result of the Thatcherite licensing revolution, and there is not much doubt that even more Thatcherism would mean even worse programmes. In this context "worse" is used in the same sense as in the sentence "Hamburgers and tabloid newspapers though popular are worse than what they replaced".

What we shall probably come to expect from ITV are series such as *A Woman's Guide To Adultery* with a come-on title and a cast that will attract foreign buyers: Amanda Donohoe, Theresa Russell, even Sean Bean. If you point out that the acting from people who have previously proved themselves more than competent is consistently poor here, and that this suggests weakness in the direction, and you add that the whole thing looks like a 60-minute commercial for Gold Blend, you must expect sneers from the new ITV mandarins. Why all this elitist whining, they will ask, what is wrong with the sort of drama that ordinary people like? And they will quote the ratings at you as proof that everything is all right. Point out that ITV used to make drama such as *Jewel In The Crown* and *The Naked Civil Servant*, *Brideshead Revisited* and *Muck And Brass* which between them managed to win high ratings and a high degree of respect, and they will smile contemptuously and refer to cloud cuckoo land.

The use of the word "woman's" in a title which refers to sex is no mere flash in the pan. Another of ITV's new series is *Hollywood Women* which last week showed us "Glitz And Glamour", and tomorrow promises "Sex And Success". Episode 1 proved in one respect to be better than the advance publicity might have suggested: in its second half it offered a re-run of the familiar old plaint about Tinseltown's love of eternal youth. We had another look at the results of plastic surgery so memorably covered previously in programmes such as *Whicker's World*. In other respects, however, the programme was even worse than expected, notably the hysterical rapidity with which cuts occurred: it appeared to be determined to establish not a 3-minute but a 30-second culture.

Sex was also the subject of last week's *40 Minutes* on BBC2, an astonishing programme which you might have thought would cause a national furore. After boasting about how many women they had laid (though they used the "f" word) and in precisely what manner, one male chauvinist pig said to the other "My woman's going to be faithful when I get married, otherwise I'll get a cleaver and cut off her tits while she's asleep and make her eat them". Is that vile and disgusting or what? There is one deliberate error in this report, however: it was actually two women boasting about their conquests, and one said to the other "My man's going to be faithful when I get married, otherwise I'll get a cleaver and cut off his dick while he's asleep and make him eat it". So that is OK, isn't it? No need for a furore.

The same goes for comedian Jo Brand. Hers is the sort of comedy, we are told, which is simply the feminist equivalent of the anti-female material dished out for years by people such as Bernard Manning and Benny Hill. But that is rubbish. Manning and Hill told jokes about mothers-in-law and landladies, but they were about relationships or callings whereas Brand's material is just malice directed at men. It would be considered wholly unacceptable on television if this was Joe Brand and he was directing similar hate-filled stuff ("Men should be allowed to carry shotguns and shoot women when they like") at women.

But perhaps the reasons are becoming clear. Three weeks ago on *Have I Got News For You* Jo Brand told us that she used to work as a nurse in a mental hospital. Two weeks ago in *Notes And Queries* she made the claim again. Then she repeated it on last week's *South Bank Show* and reiterated it on this week's. Apparently this is something she sees as deeply significant. Maybe her previous work has given her a very odd view of life and the human race, but the main point remains: if this was a man spitting out such loathing for the opposite sex he would promptly be excluded from television.

Theatre/**Malcolm Rutherford**

Mother Courage

Any actress worth her salt must have a longing to play Mother Courage: it is one of the most testing parts in European drama. And the first comment on Ellie Haddington's performance in the new production of Bertolt Brecht's play at the Cottesloe is that she passes the test *summa cum laude*.

Ms Haddington is magnificent. She never flags. She keeps her boots on till the end. Sometimes she is exuberant and looks as if she should be playing in *Cabaret*. For a woman condemned to the road, she goes through some remarkable changes of dress: always peasant-like, but never quite the same. Her facial expressions are wonderful. The highest compliment one can pay her is to wonder occasionally if she is not too good for the piece.

Directors, too, must enjoy keeping the cart on the road. *Mother Courage and Her Children* is, after all, one of the great epic plays. If you want theatre about war, this is it. The trouble is that like the 30 years conflict that it covers, *Mother Courage* is rather a relentless work. There are limits to how many times one wants to see it: perhaps every five years at the most. For the play does not easily lend itself to re-interpretation: it is simply about Mother Courage ploughing on through the futility of war. The challenge lies in how well it is done.

The previous mainstream London production was at the Mermaid four years ago with Glenda Jackson playing the leading role. Ms Jackson took a hands-on approach, pulling the cart about herself. At the Cottesloe, the cart seldom moves, though it is switched from one side of the stage to the other during the interval. Only at the very end does Ms Haddington give a pull of her own volition, and that is when she is left without her offspring.

People come to the cart for its brandy, warmth and company rather than the cart going out to find people. I think that the Cottesloe approach is more effective, but that is an entirely personal judgment and perhaps the Cottesloe had no choice since it has a smaller stage.

The new factor since Ms Jackson played the part is the break-up of Yugoslavia. This is where Anthony Clark's direction at the Cottesloe deserves the greatest praise. It resists the temptation to impose comparisons between what is happening in Bosnia now and the 30 years' war in the 17th-century. It lets the play speak for itself. Sometimes the best prizes go to those who exercise discretion. Here is one of them. Clark allows the audience to draw its own conclusions. Would that there were more directors like him.

One final compliment. I did not realise till the end that the piece is played with a cast of only eight. This is a remarkable achievement over such a time-span and such a range of characters.

If one sounds slightly jaundiced about the play, spare a thought for the critic who has seen the most intense of Strindberg (*The Great Highway* at the Gate) and the most intense of Brecht on almost successive nights. Tomorrow is off to fresh fields and pastures new with a little known play by Oliver Goldsmith called *The Good Natured Man* at the Orange Tree in Richmond.

In repertory, Cottesloe, (071) 928 2252. Sponsored by BP

Alastair Muir

Ellie Haddington: magnificent in the title role

Dance/**Clement Crisp**

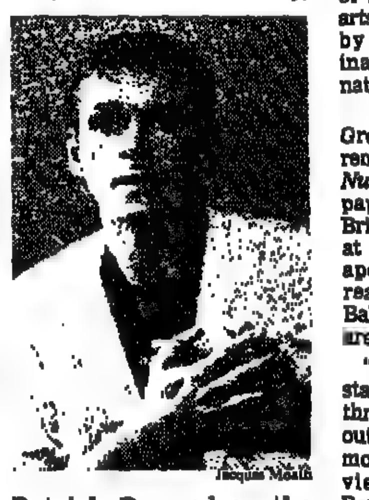
Picasso ballets in Paris

It was Diaghilev who brought Picasso to the ballet stage, as he did so many more of the best painters of his time. No dance company today can boast such acumen. Only in France – with the visual wit and adventurousness of Roland Petit's troupes, and the proud record of Jean-Albert Cartier in finding artists to decorate works for his companies – has there been a readiness to let the painter's eye (rather than the designer's) show us something about ballet. The tried, the true, the predictably winsome and the sullenly grungey, make our dance-stages a dreary sight.

How good, then, to see such performances as the Paris Opera Ballet's current *Picasso et la danse*, in which the eye is ravished, stimulated. Picasso made three great designs for Diaghilev (*Parade*, *Le Tricorne*, *Pulcinella*), married one of Diaghilev's dancers, and drew dancers for many years. His later involvement with ballet amounted to the provision of decorative accessories, beginning in 1924 with the two racing women who thunder across the painting *La Course*, which Diaghilev borrowed as a front-cloth for *Le Train bleu*, and including Picasso's suggestion that one of his war-time paintings (*Candle and Mask*) would serve well as a front-cloth for Roland Petit's *Le Rendezvous* of 1945.

The Opera Ballet's Picasso tribute has been revived after its successful showing last season. It offers a reconstruction of *Le Train bleu*, with Nijinska's dances evoked as much as restored; a very fine staging of *Le Rendezvous*; and the sun-lit Andalucia of *Tricorne*. *Le Train bleu*, alas, stopped running years ago, and this capriccio about gaiety on a 1920s plage (it must be Eden Roc) is vivaciously dull. The central role of *Le beau gosse* was, in 1924, a picture of the beauty and physical daring of Anton Dolin. No-one today can capture the verve Dolin retained in even his late performances as a dancer. Without such central allure the staging is dutiful, spectral, unlikely.

Yet Roland Petit's *Le Rendezvous*, which is quite as much a period-piece with its war's-end melancholy and existential disillusion, is tremendously alive. A Young Man finds death in the arms of the Most Beautiful Girl in the World, guided to her by the terrifying figure of destiny (a macabre top-hatted being, stupendously taken by Cyril Atanassoff). The setting is Brassaï's photographs of Paris streets. The dance is as theatrically urgent as when we saw it in 1945, and last week-end's performers (Patrick Dupond as the Young Man; Marie-Claude Pietragalla as the Girl; Atanassoff as Destiny) were grandly alert to the choreography's dramatic pulse. It was an ideal revival.



Jacques Moatti

Patrick Dupond as the Young Man in Roland Petit's 'Le Rendevous'

Tricorne is the only Spanish ballet in my experience that is authentically a ballet and authentically about Spain. It is well done at the Opera, and rather more alert in manner than last year. The designs and the de Falla score do a lot of the work nowadays – there is a tendency for companies to treat the piece as a glorious dress parade to a great score – but in Kader Belarbi the role of the Miller has a bold interpreter. He has both the youth and the vivid presence to make every moment count. The programme contains a photograph taken of the young Massine – he was 24 when he created the part – which tells everything of the dance's taut outlines. Belarbi, like last year's dazzling debutant in the role, Jose Martinez, gives it the right edge of sexual pride and rhythmic clarity.

Throughout this programme the Opera's dancers were on best form. We have in the Palais Garnier a dance-house for Europe, and in its resident company a peerless troupe. Visiting the new Richelieu wing of the Grand Louvre – which is a triumph of design and restoration – the Barnes Collection at the Musée d'Orsay, and the Opéra Bastille, I was struck again by the seriousness and generosity of France's patronage of the arts, and depressed even more by the mean-spirited inadequacies of our own national response.

*

Gremlins in the machinery removed a paragraph from my *Nutcracker* notice in Friday's paper of the Perm Ballet's British debut in Northampton at the Derngate Theatre. With apologies to any puzzled readers, and to the Perm Ballet, the missing sentences are herewith restored.

"No less than six different stagings of *The Nutcracker* are threatened this year: the first outbreak, and I'd venture the most intriguing, is that on view at Northampton's Derngate Theatre. Derngate, lively in its programming, had scheduled a production from the Lille-based Ballet du Nord. That fell through, and with a nice turn of speed, the theatre engaged a Russian troupe, the Perm Ballet, never seen here before, albeit known and admired from European tours. Perm was Diaghilev's birthplace. More significantly, the Kirov Ballet was evacuated there when Leningrad was threatened with siege in 1941, and the Kirov's influence on the Perm troupe and school was to be profound and lasting.

This first visit [until December 11 at the Derngate, Northampton] is welcome, and I hope a prelude to a more extended showing in future. The troupe – something after the size of Birmingham's Royal Ballet – is well mannered in technique, with a style that speaks clearly of Kirov example."

Concert/**Richard Fairman**

The Boston plays Berlioz

The usual formula for a visiting orchestra is to bring a showpiece as an advertisement for its virtuosity and a short work by a living composer back home to display its patriotism. On Saturday the Boston Symphony Orchestra reached London on its European tour with a rather more enterprising programme.

By accident, this became a Berlioz weekend. While the Barbican was embarking on its long-awaited series of concert performances of *Les Troyens*, offering the two parts of that epic opera on consecutive days before putting them together next Sunday, the Royal Festival Hall found itself in a position to counter with another two-part Berlioz rarity – the *Symphonie fantastique* performed with its sequel, *Lélio*.

The symphony is a favourite of the Boston orchestra and its Music Director, Seiji Ozawa. They made a showpiece of it, as the occasion demanded. (Years of working with Ozawa have clarified every inner part in this complex score, allowing countless details in the wind and brass to come through.) But it was also a performance that gave full rein to Berlioz's fevered imagination, culminating in an eerie and violent dance at the witches' sabbath.

That last movement brings many a visiting orchestra's concert to an exciting close. By putting the symphony in the first half and following it with the strange *Lélio*, as the composer did, Ozawa allowed the focus of the evening to be turned away from the orchestra and on to Berlioz himself. The stage lights went down and a spotlight picked out Lambert Wilson, who was to speak his words in this uniquely personal monologue with music.

Unlike most composers, Berlioz felt the need to express himself in writing. His diaries show an inspired and original mind at work, but I am less sure about the stream of artistic self-pity that pours out of *Lélio*. Berlioz may come across as a more sensitive person than Richard Strauss does in his appallingly arrogant self-portrait in *Ein Heldenleben*, but at least Strauss composed a cogent musical defence. The score of *Lélio* comprises half-a-dozen short and unconnected pieces, for which one suspects Berlioz wanted to find a home.

At this concert the unlikely *mélange* worked, thanks to the high standard of the performance all-round. Vinson Cole was marvellously poetic in the tenor's "Song of bliss". François Le Roux, the idiomatic baritone, made a lively brigand. The Brighton Festival Chorus excelled itself in the closing *Fantasia on Shakespeare's "The Tempest"*. Above all, Ozawa and the Boston musicians created marvels of orchestral delicacy and refinement, enough perhaps to make *Lélio* a showpiece as well.

Richard Fairman

Boston Symphony Orchestra tour sponsored by NEC

INTERNATIONAL
ARTS GUIDE

■ BONN

Tonight's performance at the Oper is *Jenufa*, in a new production conducted by Dennis Russell Davies and staged by Yuri Lyubimov (repeated Dec 11, 15, 19 and 29). Repertory also includes Cav and Pag and Lortzing's Der Wildschütz. Valery Panov's new production of Prokofiev's ballet Cinderella opens on Christmas Day (0228-773667). John Nelson conducts a Grieg programme at the Beethovenhalle on Fri (0228-773666)

BORDEAUX

Palais des Sports Tonight, tomorrow: Andrew Litton conducts Orchestre National Bordeaux Aquitaine in works by Liszt, with piano soloist Lazar Berman. Next Wed, Thurs: Alain Lombard conducts Ravel (5648 5854)

COLOGNE

Philharmonie In tonight's concert by the Rhine Chamber Orchestra, Igor Ozim plays Vivaldi's Four Seasons. St Petersburg Symphony Orchestra plays works by Musorgsky, Prokofiev and Schubert tomorrow, with violin soloist Vadim Repin. José van Dam is baritone soloist with Gürzenich Orchestra conducted by James Conlon on Sun morning. Conlon also conducts Beethoven programmes on Dec 19 and 20 (0221-2801)
Opernhaus This month's repertory consists of L'Italiana in Algeri with Kathleen Kuhlmann and Robert Gambill, Die Zauberflöte and Hansel and Gretel. Peer Gynt, a new TanzForum production choreographed by Jochen Ulrich, opens on Dec 16 (0221-221 8400)

COPENHAGEN

A new production of The Sleeping Beauty, choreographed by Helgi Tomasson, opens at the Royal Theatre on Dec 17 (tel 3314 1002 fax 3312 3692)

DUSSELDORF

Deutsche Oper am Rhein Hanz Wallat conducts a Ring cycle on Dec 12, 17, 21 and 25, with a cast including Gabriele Schnaut as Brünnhilde and Bodo Brinkmann as Wotan. Repertory also includes Arabella, Die Zauberflöte, Hansel and Gretel and two ballets choreographed by Heinz Spoerli (0211-890 8211). A new ballet production, with choreographies by Balanchine, Van Manen and Spoerli, opens at Duisburg Theatre on Fri (0203-300 9100)
Schauspielhaus Repertory includes Eugene O'Neill's Mourning Becomes Electra directed by Werner Schroeter, Shakespeare's Troilus and Cressida and Romeo and Juliet, Klaus Pohl's Die schöne Fremde and Büchner's Woyzeck (tickets 0211-369911 information 0211-162200)

FRANKFURT

Alte Oper Josef Suk and Michaela Fukacova play Brahms' Double Concerto in a concert tonight by Brno State Philharmonic Orchestra. Other highlights over the coming week are Bruckner's Ninth Symphony on Sun conducted by Michael Gielen, and concerts by Frankfurt Opera Orchestra on Sun morning, Mon and Tues evenings featuring clarinet soloist Sabine Meyer. Yehudi Menuhin conducts Sinfonia Varsovia next Wed, and Emanuel Ax is piano soloist with Frankfurt Radio Symphony Orchestra next Thurs and Fri (069-134 0400)
Oper Tonight is the final performance of Matthias Langhoff's new production of Simon Boccanegra, with John Bröcheler in the title role. There are performances of Les Contes d'Hoffmann on Dec 11, 19 and 22, and Die Fledermaus on Christmas Day and New Year's Eve (069-236061)
Jahrhunderthalle Hoechst Russian State Ballet presents excerpts from classical ballets next Tues, Wed, Thurs and Fri. Semyon Bychkov conducts Bamberg Symphony Orchestra with the Labeque Sisters on Dec 18 (069-360 1240)
English Theater Kaiserstrasse Chicago, a musical by Fred Ebb and Bob Fosse, runs daily except Mon. Dec 13: student performance of David Mamet's Sexual Perversions in Chicago and Alan Ayckbourn's Confusions (069-2423 1620)

GOTHENBURG

Konserthuset Sixten Ehrling conducts Gothenburg Symphony Orchestra on Fri in a programme including Hilding Rosenberg's Third Symphony and a suite from Prokofiev's Romeo and Juliet (031-167000)
Stora Teatern This month's repertory consists of Rigoletto, Die Zauberflöte and Robert North's Christmas ballet The Snowman, set to music by Howard Blake (031-131300/031-136500)

HAMBURG

Staatsoper Tonight, Sat, next Tues: new production of Lortzing's Der Wildschütz, starring Boje Skovhus. Tomorrow, Fri, Sun, next Mon and Thurs: John Neumeier's version of Swan Lake (040-351721)
Musikhalle Tomorrow: Cecilia Bartoli song recital. Sun morning, Mon and Tues evenings: Gerd Albrecht conducts Hamburg State Philharmonic Orchestra in new work by Ruth Zechlin and Mahler's Das Lied von der Erde, with Heinz Kruse and Iris Vermillion (040-354414)

HELSINKI

Finnish National Opera The company's new home was formally inaugurated last week with Aulis Sallinen's opera Kullervo, which continues in repertory this month with Carmen and the Bourmeister production of Swan Lake (0-4030 2211)

LEIPZIG

Opernhaus The main event this week is the premiere on Fri of a new Stravinsky ballet production choreographed by Uwe Scholz. Repertory also includes Le nozze di Figaro, Die Zauberflöte, a Bartok/Schoenberg double bill, La boheme and Coppelia (0341-291036)
Thomaskirche Peter Schreier is tenor soloist in performances of Bach's Christmas Oratorio on Fri, Sat and Sun (0341-713 2280)

LYON

● Don Giovanni can be seen at the Opéra tomorrow, Sat, next Tues, Thurs and Sat, with a cast including William Shimell, John Mark Ainsley and Isabelle Vernet. Anthony Rolfe Johnson gives a song recital next Wed (tel 7200 4545 fax 7200 4546)
● Leopold Hager conducts Orchestre National de Lyon tomorrow and Sat at the Auditorium in works by Webern, Berg and Brahms, with violin soloist Kyoko Takezawa. Next Wed: Alicia de Larrocha piano recital (7860 3713)

MUNICH

Staatsoper The main event this week is the revival on Sat of Tim Albery's production of Peter Grimes conducted by Richard Armstrong, with René Kollo, Donald McIntyre and Pamela Coburn (repeated Dec 13, 16, 19, 22). Tonight's performance is La traviata with Julia Varady. Repertory also includes Il barbiere di Siviglia, Hansel and Gretel and a new production of John Neumeier's ballet A Midsummer Night's Dream (089-221316)

OSLO

Konserthus Tomorrow, Fri: Paavo Berglund conducts Oslo Philharmonic Orchestra in works by Haydn and Mozart, with piano soloist Ingrid Haebler. Next week: Frans Brüggen conducts Haydn's The Creation (2283 3200)

STOCKHOLM

Royal Opera Tonight, Fri, next Tues: Glen Tetley's ballet The Tempest, music by Arne Nordheim. Tomorrow, Sat, next Wed: La traviata. The company also has a production of The Turn of the Screw at Södra Teatern tomorrow, Fri and next Tues (tickets 08-248240 information 08-203515)
Konserthuset Tonight, Fri: Gennadi Rozhdestvensky conducts Stockholm Philharmonic Orchestra in annual Nobel award concerts (tickets 08-102110 information 08-212520)
Berwaldhallen Sat afternoon: Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in works by Jan Sandström, Bartok and Beethoven (08-784 1800)

STUTTGART

Staatstheater Tonight, Fri: Marcia Haydée's production of Giselle. Tomorrow, next Tues: Il barbiere di Siviglia. Fri: Renato Zanella's new ballet Mata Hari. Sun: chamber music concert. Next Wed: Ruth Berghaus' production of La traviata (0711-221795)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Super Channel: European Business Today 2230; repeated 0630, 0715
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Super Channel: FT Reports 1230.
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Super Channel: West of Moscow 1230
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WEDNESDAY
Super Channel: FT Reports 1230
THURSDAY
Super Channel: West of Moscow 1230; FT Reports 2130
Euronews 0745, 1315, 1545, 1845
FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

Edward Mortimer

A pill to beat MF

The EU's search for a constitution is just beginning

Maastricht fatigue (MF) is endemic throughout the European Union, though observable in its most acute form among British members of parliament. The main symptom is an inability or unwillingness to listen to any proposition intended to improve the institutions or processes of the Union.

Specialists differ about the precise causes of the disease and about the treatment. One school of thought sees MF as a normal reaction of the human organism to prolonged exposure to the subject in question, and recommends that the patient be shielded as far as possible from further exposure. The other holds that MF is caused by the form that discussion about European institutions took between about mid-1991 and autumn 1993.

According to this view, while the reaction may indeed be "normal" it is not healthy and, if allowed to develop, may have dangerous effects. This school favours a homeopathic remedy: the source of the trouble should be used as an antidote but in carefully adjusted doses, enabling the patient to develop appropriate antibodies.

I hope the second school is right, because the idea that the next bout of argument about Euro-institutions can be put off, or confined to a minimal convulsion which no one will notice, is surely an illusion.

Negotiations now in progress between the EU and four applicant countries – Austria, Finland, Norway and Sweden – will produce, within a few months, a new treaty of accession, requiring ratification not only in the new member states but also in the existing ones. And the Maastricht treaty itself provides for its own revision at an intergovernmental conference (IGC) in 1996. That, too, will produce changes which will have to be ratified.

It would make sense to telescope these two processes. The 1996 IGC could be brought forward and the applicant countries could be invited to take part in the conference but to delay putting their accession to the vote until the results of the meeting were known. Then both old and new members would be taking a decision, in late 1995, about the institutions of a wider Union which their governments would all have agreed on.

That idea is too radical for the present mood of European governments. They prefer to negotiate enlargement quickly – obliging the new members to join the EU as it now stands – and then wait until 1996 to discuss such minimal adjustments as seem unavoidable. This thinking is a classic symptom of MF, but it is also the thinking that produced Maastricht in the first place.

In 1991 governments avoided any radical reform of EC institutions, particularly in the

The price of joining a democratic union of 16 might be too high for some

direction of greater democracy. They knew that, in a reformed system, states with larger populations would have greater influence and that this would be difficult for smaller states to accept. But Danish voters suspected (rightly) that such a reform was being planned behind their backs, and this was one of the reasons they voted No in June 1992.

Now, by putting off reform until enlargement has gone through, governments are nourishing the same suspicion among voters in the candidate countries, many of whom are now swinging against the EU. Attempting to secure a Yes vote, governments in those countries will promise to block any reform that reduces their share of influence once they are in. That ensures that the 1996 IGC will be confrontational and sterile.

Perhaps the price of joining a workable and democratic union of 16 is simply too high for voters in some applicant countries to accept. If so, it would be better to establish that fact *before* the final decision on enlargement is taken, rather than put them in a position where they can only defend their sovereignty by making the union unworkable.

But there is a chance they would not come to that conclusion if the reform proposed were sufficiently radical. Its object should be to make the central institutions of the union strong enough to take effective action on matters of genuine common interest, but to restrain them from interfering unnecessarily with the lives of citizens in matters which could be dealt with at the level of member states (or lower). This should be done in a document which non-lawyers could understand, arrived at through a public debate in which ordinary people and their elected representatives would participate.

Such is the object of *A Proposal for a European Constitution**, published last week. Sadly, I hear this document is being rubbished in Brussels as an "Anglo-Saxon" product, though only one of its 13 authors is a native English-speaker, while French and Germans make up the majority. No doubt Mr Jacques Delors's entourage dislike it for being permissive rather than prescriptive on matters social and monetary, and for reserving "to the member states, or to the people" those rights and powers not delegated "expressly or by necessary implication" to the union.

The authors wisely avoid the word "federal" but it is clear they have drawn inspiration from federal constitutions, including that of the US. In the nature of things few people will agree with everything they suggest. (I, for instance, would take issue with their claim to be defending the separation of powers when they allow the council of ministers to remain the central body, both executive and legislative.) But in their central object of launching an informed public debate before next summer's European elections, and well ahead of the 1996 IGC, they surely deserve to succeed. If there is a homeopathic remedy for MF, this might be it.

**By the European Policy Forum, 20 Queen Anne's Gate, London SW1H 9AA. Price £25.*

THE FT INTERVIEW: John Birt of the BBC talks to **Raymond Snoddy**

Cheshire cat among the pigeons

John Birt, the director-general of the BBC, is reluctant to confess. But press him hard enough and he says: "I have – I am sorry to say it, it's a genuine feeling – a strong sense of success."

Probe a little deeper and Birt, who as recently as March, was under widespread attack when it was revealed he had a consultant's contract with the corporation and was not a staff member, goes further: "I don't think I have had an unpleasant time. I think I have had one of the most satisfying years of my life. There is a very, very strong feeling here of achievement."

For Birt and the BBC it has indeed been a remarkable year. The corporation has experienced one of the most radical changes in its history – Producer Choice has been implemented. This is the name given to the move away from a "command economy", where all services to producers were provided from the centre, to an internal market where producers control their own budgets and can buy outside services.

As a result, several thousand staff jobs have gone but £100m has been saved this year to spend on programmes.

Even more important for the BBC is the government's decision to allow the compulsory annual licence fee, now £83, to rise in line with retail prices for the last three years of the corporation's Royal Charter until the end of 1996.

This relatively generous licence fee settlement indicates that the government acknowledges the BBC is taking serious steps to cut costs.

For Birt, the year has been not just one in which he survived a public mauling, but also one in which he achieved a significant victory over his opponents in the organisation – those he has mocked as ancient warriors pointing their old muskets. The licence fee award is a triumph that even Birt's most begrudging detractors would have to recognise. It might also pave the way for Birt to deliver a second, perhaps more startling, win. In the debate over the Royal Charter – the conditions under which the BBC operates – he may be able to persuade the government that there is a continuing role for a universal licence fee, which every television set owner must pay, in an age when cable and satellite television offers ever-increasing choice.

So does Birt feel he has won?

"Won is a funny word. Won in what respect?" he asks. He adds that there is a growing public understanding of the BBC's achievements in reforming itself over the past few years and again creating hits, such as *Absolutely Fabulous*, and dramas, such as *Scarlet and Black*. There is, Birt says, a sense that programmes are being put first and "a degree of excitement" that a public sector institution is reforming itself and doing it effectively.

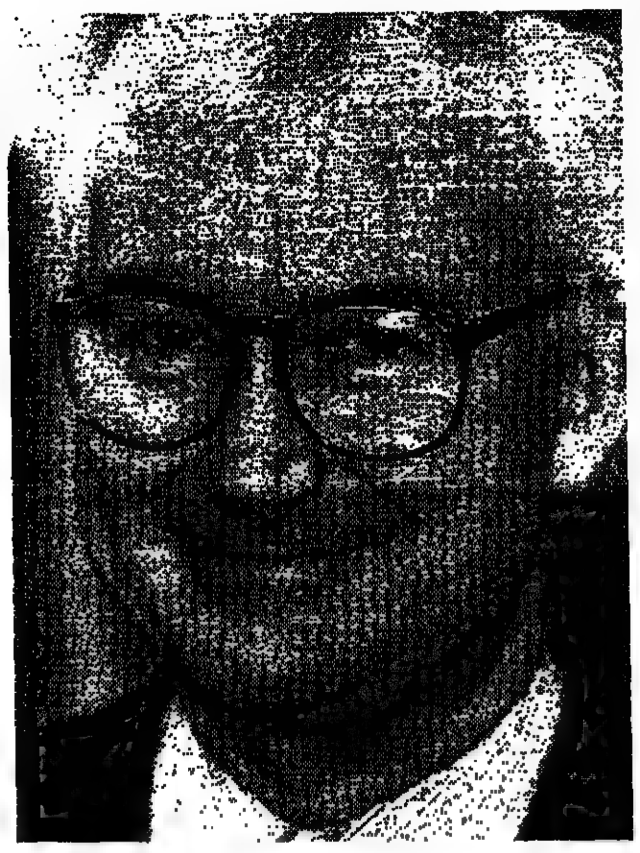
But won?

"I'm not going to use that expression. I don't even think like that. That implies that you've passed a finishing post. We are not through the charter review debate, nor is the job finished," Birt says.

He is speaking in his first newspaper interview for almost a year. Apart from wanting to spell out the scale of the accomplishment at the BBC, he also wants to counter the arguments advanced by Ian Hargreaves in his pamphlet, Sharper Vision, published recently by Demos, the independent think-tank. Hargreaves, a former director of news and current affairs at the BBC and now deputy editor of the Financial Times, argued that the BBC's future would be most effectively protected by privatisation, including a stake for the staff. Over a 10-year period the company would move towards a mixed method of funding – licence fee, advertising and subscription – and would thus be liberated from ties to government.

While the political battle for such changes has almost certainly been lost, they have aroused high-level interest – Michael Heseltine, trade and industry secretary, has started looking at the export potential of British programmes, and is known to be intrigued by such radical views.

Birt's disagreement, in particular with the idea of mixed funding, is total. "If you change the method of funding, you are inevitably going to change the nature of the institution and the programmes it supplies," he says.



Trevor Humphries

A smile of satisfaction from John Birt, BBC director-general

In a commercially funded system such as ITV, however regulated, you take decisions on a business basis, he says. As programme director at London Weekend Television, Birt commissioned such popular

'If you change the method of funding, you will inevitably change the nature of the institution'

and profitable programmes as Blind Date and London's Burning.

Advertising on the BBC would put the two systems of broadcasting "in naked and direct competition", changing both ITV and Channel 4 as well as the BBC.

Birt believes that in 10 years the BBC licence fee, now 23p a day, will be more defensible and seem better value as viewers get used to paying much larger sums for cable and satellite channels. He concedes, however, that the BBC has to find easier ways for poor people to pay. The corporation is also developing a more aggressive global strategy – exploiting "the most powerful broadcast media brand name in the world" and its programmes by transmitting television and radio programmes around the world in both English and local languages.

Bob Phillis, the BBC deputy director-general and head of the World Service, is working on a comprehensive plan for all the corporation's business interests. The main points include organising the BBC's activities on a regional basis, setting up an arm's-length relationship with BBC Enterprises, the commercial wing, and creating specialist satellite television channels with or without partners.

"We will greatly increase the amount of money coming into the BBC from our commercial activities chiefly outside the UK," says Birt, who believes that the contribution could rise from about £60m a year to three times as much by the end of the decade.

While he acknowledges the sense of hurt and insecurity the rapid reforms he has initiated have already caused, the modernisation of the BBC will continue apace. Overheads are still too high, there is still excess capacity – which means more jobs will go – and too many middle managers are inflexible and uncommunicative with their staff, and will have to be replaced by younger people, Birt says.

Mostly he talks of success and is hard put to think of any serious errors made over the past year. Producer Choice has been "a very great success", and modest teething problems must be set against the massive gains.

There has been no recent switch in the BBC's programme philosophy, he adds; policy has merely been caricatured as wanting to provide only those programmes, such as opera and hard-hitting documentaries, that commercial television is less likely to make. The policy was, and remains, to offer high-quality programmes for the entire audience.

"No change. There has been no change. No change whatsoever. No. No," says Birt.

Surely most people would regard his freelance contractual arrangement with his employer as a grievous error?

"Weeeeell. I mean, wouldn't they?" he says, adding that when he arrived at the BBC in 1987 "dozens of people in ITV" had exactly the same arrangements, and at the BBC "other members – plural – of the BBC board of management had exactly the same arrangements".

As the row fades into history, there seems to be no doubt in Birt's mind, as he enters his second year in charge of one of the world's most famous broadcasting organisations, that his first year was "a very great success indeed".

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Helping to make the NHS more efficient

From Mr Phil Davies.

Sir, As a former director of human resources in an NHS trust hospital, I agree that efficiencies attained in the private sector are attainable in the NHS. However, I believe that there are five significant preconditions:

(1) Any savings made on reducing central bureaucracy should not be immediately clawed back by the Treasury but rather made available by trusts to facilitate change.

(2) Boards of directors must be allowed real freedom, without the interference of national pay bodies, to negotiate locally whatever salaries are required to recruit and retain the best clinical and managerial staff within their overall budget.

(3) The rules on capital spending must be relaxed to allow private investment.

(4) The cost of large-scale redundancies, which currently is borne in year and therefore can prevent a trust from meeting targets, should either be centrally funded or allowed for over a longer period, say five years.

(5) The rules on transfer of undertakings for public employees needs to be sorted out to facilitate contracting out of non-core activities.

Public service organisations want to do better but government has to deliver.

Phil Davies,
teaching fellow,
Cranfield School of Management,
Cranfield, Bedford, MK43 0AL

Need to rationalise ITV's fragmented advertising regime

From Mr Greg Dyke.

Sir, Michael Grade's letter ("Advertisers threatened by ITV changes", November 27), urges the ITC to preserve its present 25 per cent limit on the share of ITV revenue that can be sold by any single ITV sales house. This is both self-seeking and unduly alarmist.

The ITC has said it will review the sales house rules early next year: one of the factors it will take into account is the way the TV air-time market is changing.

Channel Four takes nearly 18 per cent of the market at the moment and is by far the largest single commercial broadcaster in the UK. (It will still be number two even if the Central and Carlton air-time is sold together.)

If the ITC revised the rules to permit an ITV sales company to take up to 25 per cent of the market, this would make life less comfortable for Channel Four but would scarcely imperil its existence.

Advertisers already have real choice in the TV market, and this choice will grow as satellite and cable companies increase their audience share.

It is in everyone's interest (including the advertisers) that ITV remains a strong channel, commissioning and producing original British programmes on a scale exceeded only by the BBC.

Rationalising its present fragmentary structure, in both the ownership rules and the sales rules, is a necessary prerequisite for this.

Greg Dyke,
group chief executive,
London Weekend Television,
London Weekend Television Centre,
Upper Ground,
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SE1 9LT

Resurrecting the wages fund

From Dr David Parker.

Sir, So "most economists subscribe to a core of theory – mostly micro-economic – that is useful and should therefore be heeded by politicians" (Michael Prowse, December 2, reviewing Alfred Malabre's book *Lost Prophets*).

I am intrigued – what core of theory has he in mind? Given that the Treasury has now decided that the pay of all public sector workers over the next few years must be met out of an existing wage bill, and that therefore jobs must be traded for higher wages, which economists did the chancellor heed when resurrecting the "wages fund" doctrine?

David Parker,
Department of Commerce,
University of Birmingham,
Edgbaston,
Birmingham B15 2TT

No sense in 'permanent' temporary housing

From Ms Sheila McKechnie.

Sir, David Owen ("Councils' rules on homeless may be relaxed", December 3) does his best to explain how temporary accommodation for homeless families is to be permanent. Let common sense prevail: temporary housing is not suitable for families with children who need stable schooling and continuity in their lives.

Now that we have stopped building council houses, there is enormous pressure on the existing stock of re-lets, and no amount of shuffling the people who need it can conceal the underlying shortage or the economic stupidity of current policies. Scarce private rented accommodation costs between £100-£150 a week and traps people on benefits, with rising costs to the national and council tax payer.

This policy makes no economic or social sense. In the longer term it is unsustainable because of the shortage of private rented accommodation which the Budget did nothing to reverse.

The housing benefit bill will rise and threaten the government's spending targets. What will we do then? I hope the government knows the answer to that question because, other than rising levels of homeless people on our streets, we do not.

Sheila McKechnie,
director,
Shelter,
88 Old Street,
London, EC1V 9HU

Code of banking practice has failed to deliver

From Dr John Beishon.

Sir, There are times when a mere fulsome apology will not do, and the reaction of the British Bankers' Association to the December *Which?* report on banking services is one of them ("Customers report banking errors", December 2).

If, as our survey suggests, one in five bank and building society customers has suffered mistakes in standing orders or direct debits, people should check their statements; but it is adding insult to injury for banks to demand the same. Mistakes are the banks' responsibility; so is spotting them. Urging vigilance on customers is an acknowledgement of failure and an encouragement to complacency.

The Bankers' Association emerged with further, equally shameful comments aimed at deflecting criticism, complaining that our survey of more than 3,600 banking customers was, astonishingly, "too small", and that *Which?* members are more likely to grumble about banking problems. On both counts, professional opinion disagrees. So, no doubt, would the chief executives of Abbey National, First Direct, Girobank and Yorkshire Bank, which topped our poll in terms of overall satisfaction. If they can please customers, why not the Big Four?

The code of banking practice promised a new era of improved standards of service. It has clearly failed to deliver. If the code cannot be improved considerably and enforced rigorously, it should be replaced with statutory standards imposed at government level. Only then will the disgraceful concept of DIY account management be consigned to where it belongs: in the past.

John Beishon,
chief executive,
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FINANCIAL TIMES
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Wednesday December 8 1993

Euro telecom alliances

The Franco-German telecoms alliance announced yesterday provokes a certain queasiness. Deutsche Telekom and France Telecom are Europe's two largest telecommunications operators, are still state-owned and have wide-ranging monopoly powers. There is a danger that, by joining forces, they will form a cartel dominating the heart of Europe.

Yet it would be wrong to oppose the link-up on principle. The division of Europe's telecommunications market on national lines is the result of a long history of state-run monopoly. Now that markets are slowly being opened to competition and carriers are being privatised, it is natural for the industry to restructure on cross-border lines.

The Franco-German alliance is a milestone in this trend. Other examples include British Telecom's alliance with MCI of the US, American Telephone & Telegraph's Worldsource consortium and a three-way link-up between the Dutch, Swedish and Swiss operators, called Unisource.

The benefits for customers from an end to the industry's balkanisation could be considerable. The main potential prizes are an end to the "frontier effect", under which cross-border calls typically cost three times as much as national calls of the same distance, and a wider range of trans-European business services.

This is not to say that Deutsche Telekom and France Telecom are motivated by a desire to deliver lower call charges. Their alliance seems largely defensive, stemming from fear that their monopoly bases could be eroded by competition from BT and AT&T. The duo believe they will be more able to withstand competition if they form a united front.

Retrograde step

Nor is it to say that the benefits of an end to balkanisation will flow through to customers automatically. If the Franco-German link-up delays competition, it will be a retrograde step.

The details of the deal are less alarming than feared when news of it first leaked last month. Early reports suggested that the two groups wished to merge all their international activities, including ordinary phone calls, and also link up with AT&T. Such a deal between the world's three biggest international carriers might indeed, as BT said, have been "grotesque" – particularly since the duo still have monopoly rights to provide ordinary voice services.

The actual deal is more limited. It focuses on data services and value-added business services, which have theoretically been liberalised throughout the European Union. But there are still concerns. In the short term, it remains to be seen whether the markets for data services are genuinely open to competition. In the longer term, plans for the duo to take equity stakes in each other and expand their alliance may prove anti-competitive. The danger is that they could exclude rivals from their markets and use their enlarged home base to dominate other markets.

Public interest

Rather than blocking such link-ups and so losing the potential benefits of cross-border restructuring, Europe's competition authorities must seek to make alliances work in the public interest. This means adopting a more vigorous approach to opening up markets.

So far, the European Commission has been rather timid. Under its latest plans, not only will liberalisation of basic voice services be delayed until 1998. There is also no sign that competitors will be allowed to build their own networks, meaning they will have to rely on infrastructure owned by the national monopolies.

Deutsche Telekom and France Telecom yesterday showed no sign of wanting more radical action. Nor did the EU's telecom ministers, also meeting in Brussels.

Things might be different if Mr Jacques Delors, the European Commission's president, realised the connection between liberalisation and his much-cherished goal of trans-European networks. The end to Europe's balkanisation, at least in telecommunications, will not best be achieved by the Commission launching "Brussels bonds" and channelling the funds to monopolies. A better approach would be to open up the market and rely on competitive private enterprise to build the infrastructure. Mr Delors should devote his energies to securing this end.

A settlement at Lloyd's

The wrangle at Lloyd's long ago ceased being an issue of fairness and became one of cold practicality. How much damage could lawsuits from Names caught up in the spiral of losses in the late 1980s do to the institution as a whole? How much was it worth to the rest of Lloyd's to buy them off?

Yesterday's offer, of compensation worth some £900m, is an example of that chilly calculus at work. It is heavily skewed towards those Names with the strongest legal case and the greatest demonstrated determination to pursue it. On average, it amounts to just under a third of the total compensation claimed by the lossmaking Names to whom it is being made. But those with the strongest cases – members of action groups, heavily exposed to the "spiral" of reinsurance, perhaps in syndicates managed by Gooda Walker – can expect average compensation of up to about 40 per cent of their losses.

If they accept. Perhaps the most intriguing aspect of the proposed settlement, apart from its sheer complexity, is the way it will force each potential litigant to assess individually whether or not to accept the offer. Lloyd's new managers – Mr David Rowland, chairman and Mr Peter Middleton, chief executive – have promised that the offer will go ahead only if it receives acceptance from a substantial majority of the 21,000 Names eligible for it. Despite the immediate hostile reaction of the Names' action groups, that is an open question.

Finely balanced

For some people, bankrupt two or three times over, entitled only to the lower end of the settlement's compensation scale, the question is a simple one: there is nothing to be gained from such modest terms. The offer "leaves ruined Names ruined", as the leader of one action group put it yesterday. For others, particularly "working" Names with limited exposure, earning a steady flow of income from the market, the issue is equally clear cut the other way.

For most, though, the question is finely balanced. They must weigh the individual offer they will be receiving in the next few days against the chances of success in continued legal action. How much of their potential recoveries from such lawsuits will be gobbled up in lawyers' fees? How much of any award that a court makes will ever turn up in hard cash, paid not by now bankrupt Lloyd's agents but from the limited sums available from their errors and omissions insurers?

For anyone contemplating such a difficult decision, the question would be simpler if Lloyd's could promise finality, the confidence that the nightmare was at last over. Alas, that is not what the settlement offers. It covers only current claims for the years up to – and in some cases including – 1990. Claims still to come in – especially the potentially devastating "long-tail" claims over environmental and other damage in the United States – are not included. Nor are losses in respect of later years, some of which will also be bad.

Reinsurance vehicle

Lloyd's is working on a device to provide the finality that the battered Names so desperately seek: a reinsurance vehicle which will shoulder the claims of the past and allow Names to escape from them once and for all. Even assuming that it works, however, it will come into existence only in 1996 – and it will probably require Names to make a further yet-to-be-specified contribution.

The settlement proposed yesterday is thus an intermediate step, buying time from the point of view of Lloyd's new managers, providing some partial compensation from the point of view of the Names affected. It does not offer one thing the Names have sought: a sense of moral vindication, a recognition that they are innocents in a system that was at best mismanaged, at worst a scandal.

For some people, especially those lured into Lloyd's by ties of family or friendship rather than investment decision, that will be enough to make it unacceptable. That such flawed judgments were common in the 1980s boom is a sad reflection on the market's leaders of the time. It is not, however, a reason to reject the proposed settlement. Names would be best advised to judge it in the light of a prudent, rational calculation of their own interests. If that is not enough to deliver the acceptance necessary, so much the worse for Lloyd's.

Dinosaurs on the runway

Small no-frills airlines are forcing the bigger, lossmaking US carriers to rethink their strategy, writes Richard Tomkins

Something is badly wrong with the US airline industry. Deregulated 15 years ago and run entirely by the private sector, it should be a shining beacon of enterprise and profitability in a global industry otherwise characterised by state-owned monopolies, inefficiency and heavy losses. Instead, it is on the ropes.

US airlines carried a record number of passengers last year: they also lost more than $4bn. In the past three years, the industry has lost nearly $10bn – in nominal terms more than all the profits it has made since the Wright brothers achieved the world's first powered flight in 1903. Despite windfall gains from a recent fall in jet fuel prices, the industry is heading for more heavy losses this year.

The big carriers are in retreat, hacking away at their domestic networks in the hope of discovering a profitable core. Older aircraft are being retired and orders for new ones deferred, hitting Boeing and the other manufacturers. The airlines are shedding jobs by the thousand, and asking remaining employees to work harder for less, as they struggle to cut costs.

Now the industry's plight is starting to intrude into the public consciousness as labour unions fight the job losses and changes in working practices. A strike by American Airlines' flight attendants disrupted tens of thousands of passenger journeys in the run-up to last month's Thanksgiving holiday, before President Bill Clinton leaned on management to accept a union demand for binding arbitration.

Big carriers still have far to go before their cost structure has reached an appropriate level

So what has gone wrong? The obvious explanation is that too many aircraft are chasing too few passengers. That argument appears to be contradicted by last year's record passenger numbers. But load factors can be misleading: in reality, the airlines found themselves faced with such a large surplus of capacity that they filled the empty seats by launching a ruinous price war, hence the record losses.

Recession is part of the reason why overcapacity arose in the first place. The relatively prosperous years of the 1980s encouraged airlines to order new aircraft, but long lead times meant these started to arrive just as the economy was turning down. Apart from last year's upward blip, passenger numbers have been stagnant (or worse) for five years.

US bankruptcy law must also share the blame. Normally, company failures might be expected to rectify the imbalance between supply and demand by putting the worst-hit carriers out of business. Sure enough, some famous names have gone – Pan Am and Eastern, for example – but chapter 11 of the US bankruptcy code has given companies such as Continental Airlines, Trans World Airlines and America West protection from creditors, enabling them to go on flying, when they would otherwise have failed.

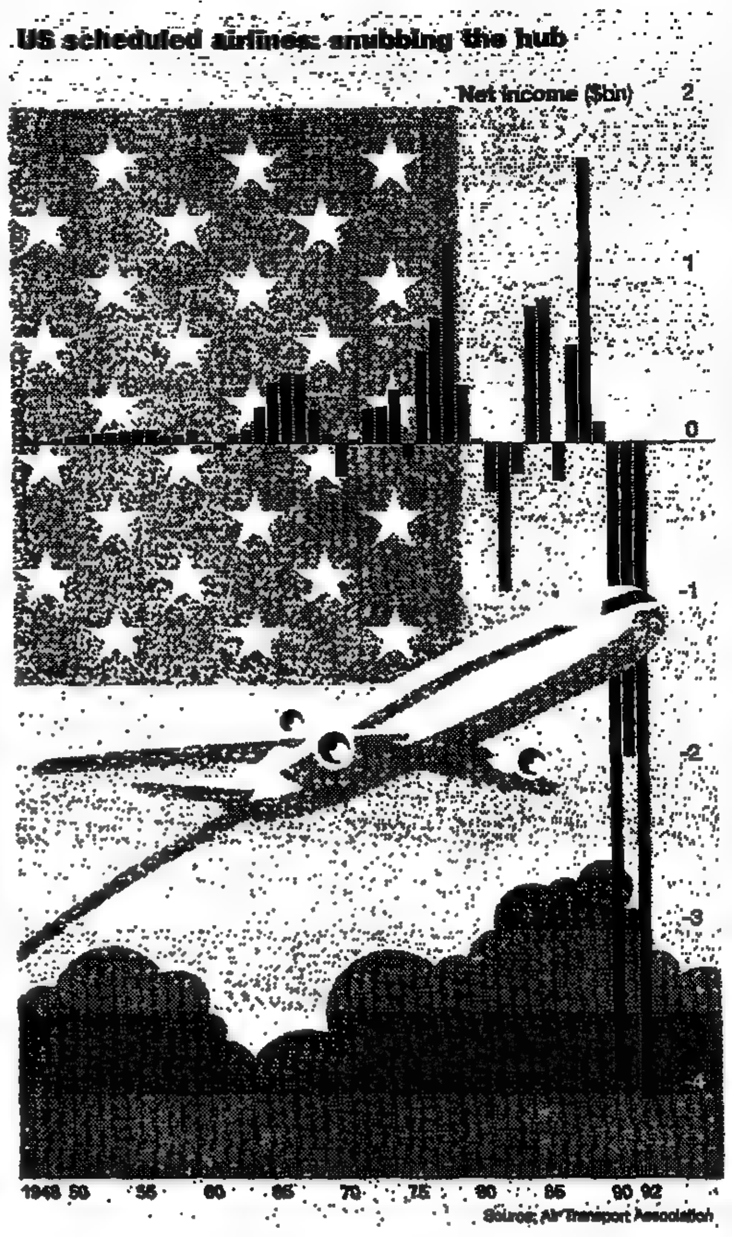
More important, however, than either of these factors is the structural change being wrought in the industry by the arrival of a new wave of carriers typified by the Texas-based Southwest Airlines (see below). These have eaten heavily into the big carriers' domestic markets by offering services at bargain prices. Their fares are often a third of those of the bigger carriers.

Passengers who fly with these smaller carriers enjoy few frills. The aircraft are one-class, seats are not assigned and the service is rudimentary. But the secret of the smaller carriers' low fares is behind the scenes, in the much higher levels of productivity they achieve from their workforces.

For years, the strategy of the big US carriers has been based on the hub-and-spoke system – that is, flying passengers from feeder cities on the spokes of the system into a big central hub, then redistributing them on to other flights to their destination. The system is seen as the most efficient way of offering the widest choice of destinations to the largest number of customers, and has been copied around the world.

The hub-and-spoke concept, however, suffers at least one big disadvantage. In order to provide for all the flights to connect with one another, they all have to converge on the hub at about the same time. That means employing the staff and resources necessary to cope with high levels of activity at the peak, only to have them standing idle during the troughs that occupy the rest of the day.

The small carriers do not have to suffer this waste of resources because they do not have hub-and-spoke operations. Instead, they run highly intensive shuttle services on busy routes between pairs of cities. Staff are kept fully employed because aircraft follow one another in and out of the airport all day, and turnround times are cut to the bone because the aircraft do not have to wait for connections.



Surprisingly, perhaps, the smaller carriers' staff are often paid at much the same rates as their colleagues working for the bigger carriers. Many belong to unions, too. But they work much more flexibly and productively than the big carriers' staff. Pilots spend less time waiting around and more time flying, and get paid only when they are in the cockpit. Flight attendants clean the passenger cabin in the few minutes' interval between the aircraft's arrival and departure.

The result of the small carriers' high productivity levels is that the big carriers – though counting themselves among the leanest, fittest and most competitive operators in the world – have taken on the appearance of dinosaurs in their home territory, and have been forced into a drastic reappraisal.

One strand of the reappraisal common to all carriers is their desperate need to cut costs – particularly labour costs, which typically account for at least 35 per cent of the total. Some airlines have shown themselves willing to trade massive equity stakes in return for concessions from their employees, as a result of which the labour unions now own 37.5 per cent of Northwest Airlines, 45 per cent of Trans World Airlines, and are negotiating for 60 per cent of United Airlines. Too often, the alternative has seemed to be a crippling strike that few are prepared to face – though American Airlines was ready for a fight, until President Clinton intervened.

Meanwhile the airlines have also had to reassess the fundamental structure of their operations, even to the extent of questioning whether the hub-and-spoke concept is valid any more. At the very least, they are withdrawing from short-haul feeder routes and handing them over to smaller operators – either wholly-owned subsidiaries, as with the American Airline companies flying under the American Eagle name, or more often to partially owned or independent regional carriers.

But perhaps the most significant sign of the times is the move by the non-union Continental Airlines to set up a low-cost shuttle service called CALite, which mimics the no-frills carriers by providing frequent direct flights between cities instead of requiring people to change flights at a hub. CALite also does it cheaply: it invites passengers to combine ultra-low "Peanuts Fares" to some destinations with another offer called "Add A Penny, Add A Pal", under which the passenger's companion flies for 1c each way.

CALite is still in its early days, but its evolution demonstrates a growing acceptance among the big carriers that domestic air travel in the US has been transformed once and for all by the no-frills carriers into a commodity business – low-cost, high-volume and with little added value.

Each is responding in its own way. American is pulling out of routes where it cannot compete. United is trying to negotiate a deal with its unions which would result in the setting up of a low-cost operation, like CALite, to handle short-haul domestic flights. Delta is also thinking of following the Continental example.

The fact that the airlines are prepared to contemplate such radical action indicates that, although they have made some progress in adjusting to the new era, they still have a long way to go. With or without economic recovery, the turmoil looks set to worsen.

Peanuts that cost peanuts

It pays to have a sense of humour when you fly by Southwest Airlines, the Dallas-based carrier leading the low-cost revolution in US air travel. Herb Kelleher, the 62-year-old chairman, is a man who likes a joke, and encourages a similar attitude among his staff, writes Richard Tomkins.

Flight attendants have been known to astonish passengers by concealing themselves in luggage lockers and springing out unexpectedly into the aisles. Passenger announcements are invariably tinged with levity ("Please be aware all seating is unassigned," people are told as they board an aircraft in Dallas. "Y'all sit yourselves anywhere, just like in church.")

Southwest can afford to be funny. Indeed, as virtually the only US airline to have stayed consistently profitable over the past few years, it is laughing all the way to the bank. Stock market analysts are predicting it will increase pre-tax profits by more than 50 per cent to $140m in the year just ending – not a vast sum by US corporate standards, perhaps, but enough to make it the nation's most profitable airline.

How is that an upstart like Southwest can make money while its bigger rivals prove so adept at losing it? The answer lies in its low cost structure. The airline specialises in short-haul, point-to-point services with frequent flights, no frills and fast turnrounds, and its workers are hard-working, flexible and enthusiastic. Result: its operating costs per available seat mile are 26 per cent lower than the average for the big carriers.

That cost structure has translated into rock-bottom fares that have enabled Southwest to trounce the competition. Spreading across the south from its home territory in Texas, where it is easily the dominant carrier, it has become the biggest operator of flights within California and has driven American Airlines out of the short-haul market in the south-west.

In September it began an assault on the north-east by offering flights on the Baltimore-Chicago and Baltimore-Cleveland routes at fares up to 85 per cent less than those available from existing operators.

If passengers miss the aircraft, it doesn't matter, because there'll be another one along in a minute

Taking a flight by Southwest Airlines is a novel experience for passengers accustomed to elaborate checking-in rituals, fawning service and endless parades of drinks and meals.

Southwest has quite deliberately trivialised the ritual, making it a bit like catching a bus but more fun. Passengers just turn up, and if they miss the aircraft, it doesn't matter, because there will be another one along in a minute.

Refreshments might be limited to a bag of peanuts and a soft drink, but the light-hearted banter from Southwest's staff leaves most people feeling much better at the end of their journeys than any number of in-flight meals.

Best of all, the flights are cheap. The low-fares strategy has proved highly addictive to the US consumer. People are not only deserting other airlines to fly by Southwest: they are also choosing to fly rather than drive, or to undertake journeys they might not otherwise have made.

One question inevitably raised about the Southwest formula is whether its success will last. After all, people are bound to trade down in a recession. Maybe, as the US economy picks up, passengers will want to pay more and go back to the old-fashioned levels of service traditionally associated with air travel.

But not even Southwest's bigger rivals believe that. They openly acknowledge that Southwest and its ilk have changed US flying habits for good. According to American Airlines, most passengers will now happily put up with lower levels of in-flight service if it means they can afford to spend another couple of days at their destination.

"Basically, the American public is saying: 'Strap me in that metal tube and get me there for 59 bucks,'" the company says. Or as Mr Stephen Wolf, chairman of United Airlines, told a US newspaper: "Even the wealthy are concluding that they should buy a lower-priced ticket on Southwest and use the difference to buy a eucalyptus tree for their home."

OBSERVER

Market forced in Singapore

■ Goh Chok Tong, Singapore's prime minister, knows what market forces can do to his business. He is finding it increasingly hard to fill his cabinet with the best people because of the hefty salaries on offer in Singapore's high-growth private sector. Two of his ministers plan to quit within the next six months.

To try to stop the political rot, his government has announced wide-ranging pay increases, starting with Goh's own basic salary. It's been increased by 20 per cent to S$45,867 a month. When bonuses are taken into account, it rises to more than S$60,000 per month. In US dollar terms this is equivalent to $450,000 a year, which is more than twice the salary of the president of the United States and four times what Britain's prime minister is paid.

"If you pay peanuts you'll get monkeys for your ministers," says Goh.

Marginal existence

■ However, it is good to see that Her Majesty's Treasury doesn't have to throw the same sort of money around in order to secure loyalty and greater efficiency of its staff.

At yesterday's meeting of the Treasury and Civil Service Committee, Joseph Halligan, an official dealing with social security, surprised MPs by admitting that his motivation was helped by performance-related pay. It had an impact on his living standards and was relevant to his future promotion.

With a marked quickening of interest, the MPs pressed Halligan on how much of his pay packet was performance-related?

"Two per cent," replied the bureaucrat. "But it makes a difference ..."

Blyth spirit

■ The British Foreign Office may be trying to reduce staff numbers, but some diplomats have obviously got the message already.

Take Ian Kydd, the 46-year-old head of the FO newsroom, who hopes not to be responding to media enquiries for almost a year if he gets selected to sail round the world on Chay Blyth's Ocean Challenge 1996-97.

Kydd beat more than 2,600 applicants, only to be treated, during the final this weekend, to a chilly aquatic assault course in deepest Oxfordshire. If he makes it as one of the two lucky (?) crew members part-funded by The Times, he will at least know someone in every port, he says.

With some experience of sailing Laser dinghies in Lagos harbour in his last posting but one, he is also a bit better-placed than some who sign up for Blyth's little outing without a clew.

Observer wishes him luck in giving those media sharks the slip.

'I couldn't wait a year to divorce my husband so I shot him'

Out-foxed

■ The plight of Brian Fox, in charge of establishments and organisation at her Majesty's Treasury, is bound to strike a special cord with fellow organisation men. What type of organisation moves the organisation man without telling him what he is to do next?

Fox is being shunted aside as part of a Treasury reshuffle caused by the need to find a billet for one of its old boys – the prime minister's press secretary Gus O'Donnell who returns in a few weeks' time. O'Donnell gets to be assistant secretary in charge of monetary policy – a post now occupied by Paul Gray who has been given Fox's job. Yesterday the ping pong-loving Fox was still in the dark about his next move.

Rhodesienne

■ Cecil Rhodes may turn in his grave at this item of news. For the first time since they became eligible in 1976, there will be more women US Rhodes Scholars at Oxford next year (17) than men (15).

Otherwise, the Ivy League was again the most successful, winning nine places, including two room-mates from Harvard. Rutgers got two, having been shut out for a Rhodes since 1953. Bill Clinton, class of 1970, saw his alma mater, Georgetown, win one, too. Appropriately for this most feminist of presidents, she is a woman.

Jobs for the girls

■ While Britain's education secretary John Patten still seems to be making heavy going of his first cabinet job, the business career of his well-presented wife, Louise, goes from strength to strength.

Yesterday she picked up another nice little earner, an advisory role at Bain & Co, one of the more aggressive management consultants. Over the past year she has moved up from being a partner of PA Consulting to join the big-league head-hunters at Heidrick and Struggles, and has added a non-executive directorship of Ladbroke on the way. And unlike her husband, she has still not turned 40.

Caroline Portillo, wife of Britain's chief financial secretary, is also making a name for herself at one of Louise Patten's rivals, Spencer Stuart. So, if, heaven forbid, two of Britain's cabinet ministers ever lost the support of the electorate, they should not have much difficulty finding a new job.

Citizen watch

■ A case of the biter bit? William Waldegrave, the UK public services minister, missed the start of his own conference in London on Service for the Citizen yesterday. So he didn't hear the prime minister's proud boast that his Citizen's Charter now forces electricity companies to pay their customers compensation if they turn up late to read the meter.

However, Waldegrave will not be offering compensation to the delegates who paid £665 for the pleasure of attending. Delays at Brussels airport, rather than Waldegrave's poor time-keeping, seemed to be the problem.

FINANCIAL TIMES
Wednesday December 8 1993

Coalition backs measures including introduction of new currency

Brazil plans assault on inflation

By Angus Foster in Brasilia

Brazil yesterday announced a wide ranging package of measures, including the introduction of a new currency, designed to tackle the country's soaring annual inflation rate of about 2,000 per cent.

The package, the seventh stabilisation attempt since 1986, will be introduced gradually and will probably not take full effect until after the government's term runs out next year.

It won cautious backing from the government's coalition partners and economists because the measures tackle Brazil's budget deficit, seen as the main cause of inflation, and do not include "shock" measures like price freezes which have failed in the past, even if initially successful.

However, several of the measures still need approval from Congress, which has been paralysed by a corruption scandal tainting many of its members. Proposed cuts in transfers to states and municipalities will also antagonise Brazil's powerful state governors.

The government admits approval of the package may be difficult, but hopes that by explaining the measures in advance the country will realise the severity of the problems.

It fears that, without the package, inflation will accelerate ahead of next year's presidential and congressional elections.

"Economic policy will then have to be either highly recessionary and politically unsustainable, or you will have hyperinflation," said Mr Winston Fritsch, economic policy secretary.

The first stage of the package, announced in general terms last week, is built into next year's budget and calls for spending cuts and revenue raising measures to wipe out a projected deficit of $22.2bn.

The cuts include a set aside of 15 per cent of the transfers made from central government to states and municipalities, to save $5.6bn. There is also a 5 per cent increase in all federal taxes, to take the top income tax rate from 25 per cent to 26.25 per cent, to raise $3.7bn.

Congress has to approve the budget and several constitutional amendments to cover areas such as the set aside, as well as longer-term measures, to solve a deficit in the social security system.

An index to measure inflation daily is also being introduced. Almost all government revenues and many private sector prices are adjusted in line with past inflation measures, which often adds to inflationary expectations.

If the first stage of the package is approved, the index could then be linked to the US dollar or a basket of currencies and adjusted daily, as happens with the central bank adjusting the exchange rate. The index would then become a new currency unit, backed by Brazil's foreign currency reserves of over $20bn.

German employers unite against subsidies for VW

By Christopher Parkes in Frankfurt

German employers yesterday united in protest against Volkswagen's efforts to obtain state subsidies for the introduction of shorter working hours at its six domestic factories. The BDA confederation of employers' associations insisted that VW's plans had to be carried out without money from the federal employment office.

The protest followed clarification of VW's plan to have some of its 100,000 workforce work normal hours for nine months of the year and then be registered as unemployed – and paid benefit – for the remaining three. They would then be rehired for a further nine months.

Describing the scheme as "bogus" because the employees would remain tied to VW, the confederation said contributions of workers and companies to federal unemployment funds were not intended to pay for "general operating cost reductions".

VW, which has agreed with its workforce on a nominal 28.8-hour week (in various formulations) for the next two years, claims its model would be far less of a burden on state funds than the alternative: dismissing 30,000 people.

However, it has already promised that there will be no redundancies for the duration of the draft restructuring agreement with the unions. While the group says the scheme would reduce labour costs by about DM1.8bn ($1.06bn) a year, independent estimates put the cut at DM1.5bn.

It has also been pointed out that, with losses forecast to hit DM2bn this year, VW in any case would be hard pressed to finance redundancies on the scale threatened. Observers say that state "subsidies" would probably be questioned by the competition authorities at the European Commission. The DM25bn deficit facing the labour office this year suggests that it, too, could find it hard to justify paying partial unemployment benefit.

West German growth, Page 2

All change for foreign small change

By Alison Smith in London

Left-over coins are the bane of international travellers, who can end up weighed down by small change from around the world.

There may be a solution for passengers arriving at London's Heathrow and Gatwick airports, where multi-currency coin exchange machines have just gone into operation.

The machines, run by the bureau de change group Travelex, will enable passengers to change low denomination coins in common currencies into sterling.

British banks do not accept foreign coins, in part because of the cost of transporting them back to their home countries.

The cost of handling coins is reflected in the exchange rates offered at the machines.

Yesterday, putting $10 in coins into the machine would have produced £5, compared with the £6.25 Travelex would have paid for a $10 bill. Two DM5 coins would have realised £2.96, against £3.70 for a DM10 banknote.

The machine in Terminal 4 at Heathrow changes US and Australian dollars, Dutch guilders, and French francs, while the one at Gatwick's South Terminal also covers other currencies, including pesetas and D-Marks.

They can be adapted to take different currencies – in the skiing season, for example, the Gatwick machine might take Austrian schillings.

Assembly lifts Tapie's immunity

By David Buchan in Paris

Mr Bernard Tapie, the businessman-turned-politician, is expected to face prosecution for alleged financial irregularities after the French National Assembly voted yesterday to lift his parliamentary immunity.

The 432 to 72 vote followed a judge's request to investigate alleged misuse of corporate funds from Testut, a small near-bankrupt manufacturer of weighing scales which is controlled by Bernard Tapie Finance. The company was used to extend loans to Olympique-Marseille, the football club which Mr Tapie also controls, to buy football stars.

Appealing to fellow deputies yesterday, Mr Tapie said: "This assembly is asked to cast the first stone at me. And this will allow others to cast bigger, heavier stones perhaps at me, but perhaps they will also hit some of you". Several deputies, mostly Socialists, have been implicated in alleged illegal funding of political parties by businessmen seeking public contracts.

Mr Tapie built up his group largely by taking over failing businesses, often with credit from state-controlled banks, selling some of their assets and juggling the rest between various holding companies.

According to Mr Antoine Gaudino, a former member of Marseilles' financial police, Mr Tapie has piled up personal guarantees to banks of nearly FFr1bn ($173m). Société de Banque Occidentale, a subsidiary of Credit Lyonnais, yesterday acknowledged loans to Mr Tapie, but would not reveal their amount. SDBO and other institutions are said to have a FFr79m mortgage on Mr Tapie's Paris mansion, which he admitted this summer was now worth only FFr30m.

Franco-German alliance

Continued from Page 1

merging the public "voice" networks of the French and German operators. Mr Ricke stressed that all the proposed joint services were already deregulated within the EU, and that the two companies had only about 10 per cent of European market for them.

By restricting the immediate scope of the joint venture, the companies hope to get it cleared by the European Commission by next Easter.

Any pooling of French and German "voice" services using the public network would be highly controversial, as a potential block to pan-European competition. However, France Telecom indicated that no such move was likely until public networks were open to full competition in 1998.

Deutsche Bank profit up 11%

Continued from Page 1

capital to fund industry and job creation. "I am always expecting congratulatory letters, but they never arrive," he protested.

Noting that a 20 per cent net return on equity was not unusual in the US, he said German banks were relatively "under-developed", doing well to achieve 12.5 per cent. Detailing the results, which were compared as usual in Germany with ten-twelfths of the full 1992 results, he said foreign operations' earnings rose 40 per cent, with especially strong contributions from Luxembourg, Italy, and Morgan Grenfell, the UK merchant banking business.

Foreign branches and subsidiaries also contributed more than half the 7 per cent rise to DM9.7bn in net interest earnings.

THE LEX COLUMN

European party line

The much-touted marriage between France Télécom and Deutsche Telekom appears to have been watered down to cohabitation in a service flat in Brussels. The partners are pooling sophisticated services for multinational companies – very much in line with the joint venture between BT and MCI. Yet there is no comparable sharing of equity, nor a merging of mainstream international telecoms businesses. In part, that may be because the two companies are not ready – France Télécom may not even become a limited company and the privatisation of Deutsche may be postponed. The suspicion must be, however, that the European Commission would take a dim view of the two companies collaborating in markets which are not yet open to competition.

Pitching into competitive data services is merely to follow the herd. But the market is not large by telecoms standards, and margins are unlikely to be high. Perhaps telecoms companies have focused on this area because it is one of the few where regulation does not currently prevent competition. The limited capital commitment also means that it will be hard to come to much harm.

Still, alliances made in haste for niche markets may be repented at leisure when wider competition is allowed. The participants will, however, probably have plenty of time to reflect on that. Closer links between France Télécom and Deutsche Telekom would have to be offset by more open access to domestic markets. Neither would be keen to allow that, at least while their high business tariffs subsidise domestic users. That would be an open invitation for BT and Mercury to pick off their best customers.

FT-SE Index: 3237.3 (0.0)

Source: FT Graphite

Deutsche Bank

Frankfurt's calm reaction to yesterday's record provisions at Deutsche Bank is perhaps explained by the way in which higher provisions were flagged at the interim stage. Though the DM2.5bn charge for the first 10 months represents a modest acceleration in the rate of increase, there does not appear to have been a significant deterioration in asset quality since the summer. Deutsche's provisioning rate is about average for the sector and it can afford to boost the bad debt charge due to the striking 54 per cent increase in income from trading on its own account.

Less clear is the future trend. If the economy has indeed passed its nadir, provisions could be expected to fall next year. Even on the most optimistic considerations, though, the chances are that bad debts will remain high until the recovery is well under way. Moreover, worries about tax increases, the elections and the pace of Bundesbank rate cuts may defer the recovery. There is also the risk of a large corporate failure, though anxiety about Metalgesellschaft in this regard seems misplaced.

That leaves the question of where profits growth will come from in 1994. Depressed loan demand will slow net interest income while Deutsche cannot rely on matching this year's trading revenue. The underlying rise in costs is only slightly ahead of inflation when the effect of consolidating Banco de Madrid and Deutsche Herold are taken into account. So the scope for economies seems limited. Commission income may receive a further boost from the insurance side, but Deutsche will struggle to meet its target 20 per cent return on capital.

Siebe

The stress which Siebe places on its cash flow is perhaps a response to those who regard its ability to maintain margins through the recession with suspicion. Had it simply relied on judicious use of acquisition provisions at Foxboro, the company would surely not have met its targets for reducing gearing. The fact though, that yesterday's interim figures provided further positive news on this score is no longer quite enough. Having taken the axe to Foxboro's costs, the time has come when the controls division should be seeing more benefit from operational gearing and volume-driven growth. There has been some recovery in the US, but that is offset by weakness in Europe. Some £10m of the £14m increase in pre-tax profits was accounted for by exchange rate changes, and margins in the controls division have fallen slightly. Siebe's claim that they would have increased without the new charge for retirement healthcare and the consolidation of two small acquisitions is scant consolation. That would still have left them below the 16.3 per cent earned in 1992-93, while the retirement charge will recur.

Siebe is thus not yet able to deliver strong organic growth. This may owe more to economic circumstance than to any management shortcomings. But it suggests further reliance on acquisitions which would also help explain Siebe's interest in conserving cash. The market seems to have factored in the implications for earnings quality. A prospective multiple of around 18 times puts Siebe on a lower rating than other cyclical stocks such as those in building materials.

Smith New Court

The small proportion of shareholders who declined to take up Smith New Court's rights issue in June must be kicking themselves. Even after yesterday's round of profit-taking, the shares stand at almost double the 210p rights price. Rising world equity markets can take much of the credit. The upward march on the shares was notably halted in September and November, when UK equities were weak.

While the market is bubbling, though, cost control is perhaps the biggest management challenge. On the basis of yesterday's half-year figures, Smith's traders and analysts will be among those City folk looking forward to bumper bonuses in the New Year. Since staff costs make up 75 per cent of Smith's controllable costs, wage inflation is a serious threat. But big bonuses will not worry shareholders if basic salaries and the formula linking bonus payments to profits remain firmly under control.

Smith makes undisclosed provisions for bonuses throughout the year, so second-half profits should not buckle under the strain of one-off payments. The worry is that the shares still behave like a geared play on UK equities, despite its efforts at diversification overseas. It is odds-on that Smith will under-perform again should the London market hit a sticky patch.

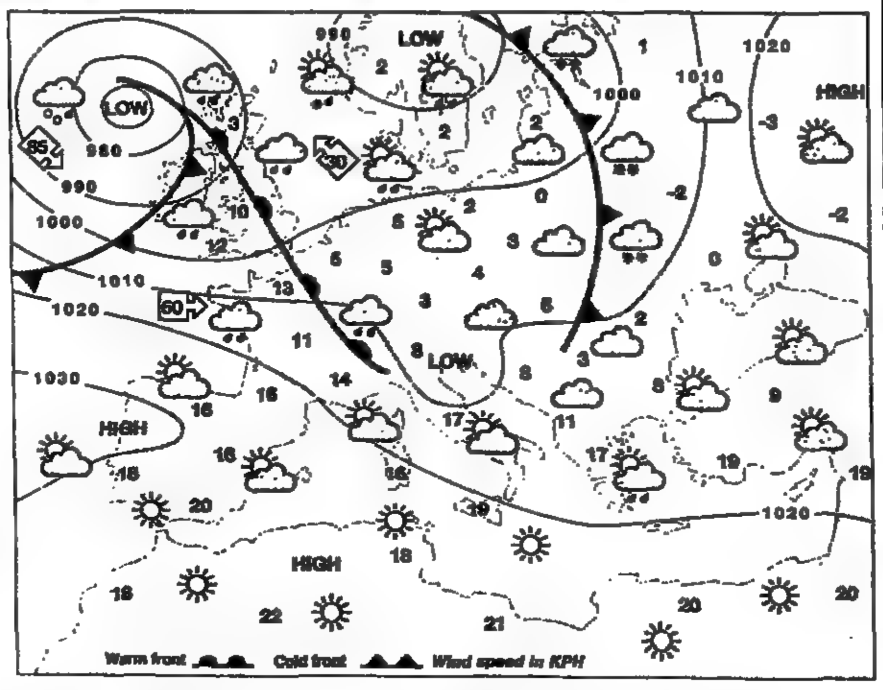
FT WORLD WEATHER

Europe today

A westerly flow will drive a vigorous depression towards western Europe. Mild air will spread over western Europe in the wake of a warm front which will move over England, Ireland and France in the morning accompanied by rain. Temperatures will be a few degrees higher than yesterday. Westerly winds will increase to gale or strong gale force along the west coast of Northern Ireland and England. During the afternoon, rain will reach the Benelux and Germany. Snow will fall in the French and Swiss Alps. Southern Spain, Portugal and Italy will stay dry with plenty of sunshine. Afternoon temperatures will be around 18C. Another active depression over Scandinavia will be responsible for sub-freezing temperatures and snow in Lapland and the central CIS.

Five-day forecast

North-western Europe will continue unsettled as a westerly flow brings a series of depressions. On Thursday winds will increase to strong gale or storm force along the west coast of the British isles, the Benelux and France. Frosty conditions will continue over northern Europe. The Mediterranean region will be settled with comfortable temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	27
Accra	cloudy	32
Algiers	fair	19
Amsterdam	rain	5
Athens	shower	17
B. Aires	fair	29
B.ham	rain	8
Bangkok	cloudy	34
Barcelona	fair	18
Beijing	fair	3
Belfast	rain	8
Belgrade	cloudy	3
Berlin	rain	4
Bermuda	fair	25
Bogota	sun	19
Bombay	fair	32
Brussels	rain	5
Budapest	cloudy	6
C.hagen	shower	4
Cairo	sun	20
Cape Town	fair	22
Caracas	fair	25
Cardiff	windy	12
Chicago	fair	[illegible]
Cologne	rain	4
D' Salaam	shower	30
Dakar	fair	30
Dallas	sun	15
Delhi	sun	28
Dubai	sun	28
Dublin	rain	11
Dubrovnik	fair	14
Edinburgh	rain	4
Faro	fair	18
Frankfurt	rain	5
Geneva	rain	9
Gibraltar	sun	18
Glasgow	rain	3
Hamburg	rain	4
Helsinki	snow	2
Hong Kong	fair	21
Honolulu	fair	27
Istanbul	fair	9
Jersey	windy	10
Karachi	sun	33
Kuwait	sun	22
L. Angeles	sun	19
Las Palmas	sun	21
Lima	sun	23
Lisbon	fair	15
London	rain	10
Lux.bourg	rain	5
Lyon	rain	12
Madeira	sun	18
Madrid	fair	14
Majorca	fair	19
Malta	fair	18
Manchester	rain	7
Manila	rain	30
Melbourne	fair	20
Mexico City	fair	19
Miami	fair	28
Milan	fair	9
Montreal	cloudy	-1
Moscow	snow	1
Munich	sleet	2
Nairobi	thund	26
Naples	fair	15
Nassau	fair	29
New York	sun	8
Nice	cloudy	16
Nicosia	fair	19
Oslo	sleet	2
Paris	rain	13
Perth	fair	32
Prague	rain	4
Rangoon	fair	34
Reykjavik	snow	-1
Rio	sun	29
Riyadh	sun	26
Rome	fair	17
S. Frsco	rain	14
Seoul	sun	4
Singapore	shower	29
Stockholm	cloudy	3
Strasbourg	rain	6
Sydney	cloudy	20
Tangier	fair	19
Tel Aviv	sun	18
Tokyo	fair	9
Toronto	cloudy	2
Tunis	sun	18
Vancouver	windy	8
Venice	fair	8
Vienna	cloudy	7
Warsaw	cloudy	2
Washington	sun	13
Wellington	fair	18
Winnipeg	snow	-5
Zurich	rain	5

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FINANCIAL TIMES

COMPANIES & MARKETS

Wednesday December 8 1993

INSIDE

A welcome for Postbank

Postbank, often nicknamed "the bank without bankers," was symbolically welcomed into the broader family of German commercial banks yesterday when the Association of German Banks dropped a legal suit against it. Page 18

Tree-mendous growth

Fletcher Challenge, New Zealand's second biggest company, believes it has found a solution to the depletion of the world's natural forests and the increasing shortage of timber. It is called the radiata pine. The pine is being developed to produce a rapidly growing supply of high quality wood. Page 20

Sanyo goes for flash chips
Sanyo Electric, a leading Japanese consumer electronics company, is planning to invest in flash memory chip production. Page 20

Royal Bank disappoints
Royal Bank of Canada, the country's biggest financial institution, has had another disappointing year, with earnings hit by restructuring charges and unexpectedly high loan losses, especially in property. Page 21

Warburg wins US prize
The US subsidiary of SG Warburg took another step in its attempt to gain a profitable foothold in the US capital markets yesterday when it lead-managed a $112.7m issue of new common stock for Cummins Engine, the big Indiana-based engine manufacturer. Page 22

Chubb locks out rivals
Chubb Security, the UK electronic alarm and locks group, yesterday announced a 37 per cent increase in interim pre-tax profits. The increase was due mainly to tight cost controls and success in defending market share. Page 23

Allied Colloids suffers
Shares in Allied Colloids,the UK chemicals company, fell 10p to 228p yesterday as interim pre-tax profits dropped 15 per cent. Page 23

A fillip from the Midland
Midlands Electricity yesterday gave the UK electricity sector a fillip when it announced a 20 per cent increase in the interim dividend and indicated that the full year rise would be about 15 per cent. Page 25

Taunton fizzes over cheap rivals
Taunton Cider, reporting an adjusted 11 per cent increase in first half profits, said yesterday that the UK take-home cider market had been invaded by an unprecedented number of low-priced brands. Page 24

Sims in the red
High livestock prices together with the devaluation of sterling pushed Sims Food Group, the UK meat processor and supplier, £1.3m into the red at the pre-tax level. Page 27

Shares placing fetches £14m
London Industrial, a property company specialising in small working units, raised £14m ($20.86m) through a London share placing. Page 26

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)

Rises			
AEG	186.9	+	5.5
AG Ind & Verk	573	+	16
Linotype-Hell	328	+	8
Zanders Feinpp	220	+	8
Falls			
Horten	245	-	7
MAN	375.5	-	8.8

NEW YORK ($)

Rises			
Boeing	30⅞	+	1
Nevellus Systs	29⅞	+	1
RJR Nabisco	6⅞	+	¼
SW Energy	18¼	+	1½
Falls			
Gerber Prods	26⅜	-	1⅜
KCS Energy	21⅛	-	1⅞

New York prices at 12:30.

PARIS (FFr)

Rises			
Club Med	341.8	+	28.4
Dollfus Mieg Cie	329.5	+	8.6
Ecco	574	+	14
Imetal	547	+	19
Falls			
Fromageries Bel	5100	-	130
UAP	649	-	19

TOKYO (Yen)

Rises			
Nissan Motor	725	+	41
Onoda Cement	523	+	28
Falls			
Hanshin El Rlwy	431	-	70
Japan Syn Rbr	427	-	23
Kokuyo	2190	-	140
Toyo Kanetsu	542	-	52

LONDON (Pence)

Rises			
Abbey Natl	460	+	15
Apollo Metals	91	+	8
Aviva Pet	67	+	6
Bemrose	427	+	42
Border TV	150	+	12
Eurocopy	67	+	9
Midlands Elect	675	+	22
Tunstall Grp	573	+	30
Wace	48	+	5
Falls			
Chubb Security	365	-	15
Courts	838	-	35
Drew Scientific	58	-	4
Electronic Data	635	-	38
Granada	473	-	12
LWT	578	-	8
OMI Intl	49	-	6
Saatchi	146	-	11
Sainsbury	408	-	9
Siebe	568	-	20
Signet	20	-	2
Tams (J.)	98	-	8
Taunton Cider	167	-	20
Wellcome	666	-	22

Southwestern Bell in Cox link-up

By Martin Dickson in New York

Southwestern Bell, the US regional telecommunications group, and Cox Enterprises, the privately-owned media group, yesterday formed the latest multi-media alliance in the US when Southwestern agreed to invest $1.6bn in a partnership which will own most of Cox's cable television systems.

The deal follows a UK partnership between the two last spring when Cox took a 25 per cent stake in a cable television and telephone system run by Southwestern.

Mr James Robbins, who heads Cox's cable business, said that "after looking at many potential partners we realised the best match was with our existing partner in the UK".

Southwestern Bell, one of the seven Baby Bell local telephone companies, provides telecommunications services in Texas and neighbouring states. Atlanta-based Cox is a $2.5bn turnover media group with interests ranging from newspapers to television broadcasting stations.

Under a memorandum of understanding, Southwestern will take a 40 per cent stake in the private US partnership, which will own 21 of Cox's cable systems, with about 1.6m subscribers in 16 states. The combined venture will have a market value of around $4.9bn and will be the sixth or seventh largest cable operator in the US.

The partnership will exclude two Cox cable systems, in Oklahoma City and Lubbock, Texas, because Southwestern Bell provides a telephone service there. US law forbids telephone companies from owning cable businesses in their telecommunications service area.

Cox has offered to place in the partnership various other cable interests, subject to separate negotiations. These could include a $500m investment Cox has agreed to make in QVC, the television home shopping network, to finance its hostile $10bn bid for Paramount, the US film and publishing group.

The Cox deal is the latest example of US local telephone and cable companies forming alliances in preparation for the growth of a multi-media home entertainment industry.

Cox and Southwestern said much of the telephone company's $1.6bn investment would help "aggressively expand cable subscribership" and acquire interests in programming.

Bidder pulls out of Gota Bank sale

By Christopher Brown-Humes in Stockholm

The Swedish government's plans to sell Gota Bank were dealt an unexpected blow yesterday when Svenska Handelsbanken, one of the country's leading commercial banks, pulled out of the bidding.

The decision means that Skandinaviska Enskilda Banken and Nordbanken are the only remaining bidders for Gota, which collapsed into state hands last year under the weight of huge losses.

Mr Arne Martensson, Handelsbanken chief executive, said information had emerged "which made us increasingly hesitant about buying Gota Bank".

His main criticism was that the government's price expectations were "far too high".

Mr Martensson declined to specify what had cooled the bank's enthusiasm for Gota. A total of SKr43bn ($5bn) of Gota's problem loans have already been hived off into a separate entity called "Retriva".

Gota Bank has some SKr60bn worth of healthy assets which analysts say may attract a price of more than SKr2bn.

Observers suggested that SE Banken's credit rating might suffer if it bought Gota Bank, tipping the odds in favour of a purchase by Nordbanken, itself bailed out by the state last year.

"Nordbanken is the frontrunner now, which means that taxpayers' money just shifts from one pocket to the another," said Mr Peter Mansson, financial analyst with ABB Aros Securities.

The aim is to sell off Nordbanken as soon as possible. In the light of the government's other privatisation commitments, this now appears unlikely to happen before 1995.

World stock markets, Back Page

Shake on it: Rodger Booth, Bemrose chief executive (left), and Carl Dettmeyer, McCleery-Cumming president (centre) agree on the deal. Jeffrey Meyers, president of Renaissance, Bemrose's US subsidiary, looks on.

1 Bemrose to buy
Bemrose Corp., the UK security and promotional printer, is to pay $27m (£17.9m) cash for McCleery-Cumming, making Bemrose the largest US publisher of advertising calendars.

2 Playboy to religion
McCleery-Cumming's styles range from religious subjects, scenic wildlife and American art to "Playboy" glamour calendars.

3 Geo. Washington bedrock
Two-thirds of sales are generated from the "George Washington" range of calendars sold through more than 3,000 independent US distributors.

4 Blue chip
The balance are customer-specific designs produced for large companies like Ford, General Motors, John Deere, Wal-Mart and Texaco.

5 Selling out
Four of McCleery-Cumming's management team own the majority of its shares. Selling to Bemrose, they will retire as multi-millionaires.

6 Printing profits
McCleery-Cumming posted pre-tax profits of $5.05m in the year to February, up from $4.45m a year earlier, on sales of $31.8m ($32.5m.) Net assets at the end of February were $6.49m.

7 90 years young
The McCleery-Cumming calender business started in 1903 and expanded by buying the calendar division of Newman Rudolf of Chicago in 1944.

8 "Hawkeye" state
The company, which employs up to 350 people including 200 staff who work seasonally. It has a 20-acre site near the Skunk River in Washington, Iowa- the "Hawkeye" state.

9 Shareholders tapped
Bemrose will fund the deal with a 1-for-4 rights issue at 325p per share, underwritten by SG Warburg, to raise a net £19.5m. The shares closed up 42p at 427p yesterday.

10 Bemrose booms
Bemrose forecasts pre-tax profits, before exceptional credits, of at least £10m (£6.25m) in the year to January 1, for earnings per share of 27.90p (22.18p).

11 Excellent fit
Mr Roger Booth, Bemrose's chief executive, said the acquisition was "an outstanding opportunity". Bemrose is already number three in the US market. The deal will enhance earnings in 1994.

12 Make-up-your-mind time
The deal is subject to shareholder approval at an extraordinary meeting on December 23.

Words: Paul Taylor Design: Ranjit Dhillon

Siebe shares fall despite 17% gain

By Andrew Bolger in London

Shares in Siebe, the international controls and engineering group, fell 20p to 568p yesterday although the company announced a 17 per cent rise in pre-tax profits to £94.2m ($141m) in the six months to September 30.

The shares enjoyed a strong run before the results. There was disappointment that £10m of the £14m increase in pre-tax profits came from currency translation, and concern about the impact of recession in continental Europe and Japan.

However, Mr Barrie Stephens, Siebe's chairman and chief executive, was upbeat: "These results are particularly gratifying at a time when many of the market places in which we trade are in recession.

"They also demonstrate the wisdom of building up our presence in the fast-growing process controls sector and in this regard our United States operations are especially important."

Group turnover rose 18 per cent to £895m, of which £118m was attributable to currency translation, and earnings per share advanced 16.2 per cent to 13.6p (11.7p). The interim dividend was lifted by 10 per cent to 3.66p (3.3275p).

Sales grew 2.7 per cent in constant currency terms and net margins were maintained at 10.5 per cent, in spite of the impact of a £2m US pensions charge, which will continue at a similar level, and an increase in severance charges from £2m to £3m, reflecting redundancies in continental Europe.

Siebe's worst performer was its specialist mechanical engineering. Sales in automotive and garage equipment to continental Europe fell 19 per cent, and profits fell from £8.5m to £4.8m. This division bore most of Siebe's 400 job losses.

In controls, operating profits increased from £78.4m to £96.7m. Temperature and appliance controls benefited from the recovery in the US and South America, which outweighed the downturn in Japan and continental Europe.

Control systems increased sales, with gains in the US and Asia offsetting lower activity in Europe and Canada.

An increase in cashflow from £34.2m to £44.4m helped cut gearing from 60 per cent at the April year-end to 56.2 per cent at September 30.

Mr Stephens said Eckardt, the recent German acquisition, would fit well with the group's Foxboro process control business.

Lex, Page 16

Nabisco to cut 6,000 jobs globally

By Richard Tomkins in New York

RJR Nabisco, the US tobacco and food group, yesterday announced that it was to cut 6,000 jobs from its worldwide workforce of 63,000 as part of a drive to improve productivity.

The restructuring would result in a charge of $445m to net income in the fourth quarter, equivalent to 32 cents a share. However, the company added that in future years, it would enhance net earnings by an average of $250m a year.

Nabisco emphasised that the job losses would be spread across the group's tobacco and food operations in the US and overseas, at all levels of the workforce.

Mr Charles Harper, chairman and chief executive, said: "Our restructuring programme is intended to improve margins in both the tobacco and food businesses, so we can resume our earnings growth track next year."

The company said other components of the charge included reductions in corporate expenses, promotion and merchandising programmes, and manufacturing cost improvements.

In October, Nabisco had warned that fourth-quarter net income would be hit by a restructuring charge. Yesterday the shares rose by $¼ to $6½ in anticipation of future earnings growth.

Nabisco's announcement comes less than two weeks after Philip Morris, its closest rival in the food and tobacco industry, unveiled similar plans for a restructuring aimed at defending its brands from low-cost competitors.

Philip Morris said it would cut its worldwide workforce of 168,000 by 14,000, in a move that would produce a $457m charge to fourth quarter earnings but would later result in an enhancement of earnings to the tune of $600m a year.

Both companies have been hard hit by a price war in the US cigarette market after Philip Morris reduced the price of its best-selling Marlboro and other premium brands by 20 per cent.

RJ Reynolds, Nabisco's US tobacco arm which makes Winston and Camel cigarettes, reported a 58 per cent *fall* in third-quarter net income because of the price war, and warned of cost-cutting.

Barry Riley

Why pension funds are glum at the bull market

In the midst of roaring bull markets we are suddenly confronted with the curious spectacle of distressed pension funds, on both sides of the Atlantic. Rising securities prices can imply lower future returns, so they bring no comfort at all to those who are seeking to pay for future liabilities from investments made out of future cash flows, or from the roll-over, at maturity, of existing fixed income securities into future issues at lower interest rates.

The better-known sob story is that of the big US corporations anxiously tracking the progress of the long Treasury bond yield. General Motors has said that each percentage point drop adds $5bn to its pension deficit, which is probably now more than $20bn.

There is a rather less publicised debate going on in the UK amongst actuaries about the impact of the minimum solvency standard proposed by the Goode Committee. Some fear it may trigger a shift of strategy by British funds away from 90 per cent equities and towards a much heavier bond exposure.

The discontinuance basis of valuation has returned to prominence: it forms a fragile link between rising equity prices and slumping bond yields. A similar problem is aggravating the US crisis, because of the attempts by the Pension Benefit Guaranty Corporation and the Securities and Exchange Commission to tighten valuation rules. Many US plans are undervaluing their liabilities by applying unrealistically high discount rates.

If schemes are terminated, they need to contain enough assets to provide the promised benefits. The most conservative test of solvency on this basis is whether there is enough money to buy the required annuities from life assurance companies. In the UK, not only have the gilt yields which underpin annuity rates dropped by 2 percentage points so far this year but life companies are offering exceptionally poor rates because they are suffering from balance sheet strains.

Hitherto, British pension schemes have tended to regard their American counterparts with slightly patronising sympathy because of the latter's need to cope with unhelpful rules. The US pensions accounting standard FAS 87 focuses on the market values of assets and has thus encouraged a high bond element in portfolios, aiming at low volatility.

Each percentage point drop adds $5bn to General Motors' pension deficit

The equivalent UK standard SSAP24 permits smoothed actuarial valuations, so that a dive in the stock market can be made to disappear by fancy figuring. British funds have gone confidently for the high equity returns (19 per cent a year since 1979) and have prospered.

But now they face two awkward problems. The stringent solvency test is around the corner, unless the actuarial profession can mount a rescue. Second, the latest surge in equity prices has been based largely on the stretching of the valuation basis rather than on improved fundamentals. So the actuarial smoothing, based upon dividend growth, has temporarily gone into reverse: thanks to Norman Lamont's raid on pension funds' dividend tax relief in March, the actuarial valuations this year will show a slight *fall* in UK equities.

The Goode Committee suggested that one way in which the problem of a minimum solvency standard could be moderated would be through the issue of special gilts by the government. These would be deferred income index-linked bonds, and would partly get around the problem of unacceptably poor annuity rates. However, each terminated scheme would have a different liability profile.

Actuaries are now telling the Bank of England that in an ideal world the government would issue a whole series of zero coupon index-linked gilts with a long spread of maturity dates. It would then be possible for each fund to put together a package of *zeros, maturing in different* years, which would closely match its expected pension liabilities. Each zero being attractive to many different funds, it would be a reasonably liquid investment.

The irony is that the British and American governments see themselves as successful in driving down their cost of borrowing, but now they are faced with the troubles of pension schemes which have based their funding on the expectation that investment returns would be *high*. One thing leads to another . . .

CS Holding warns on debt as income advances 65%

By Ian Rodger in Zurich

CS Holding, the financial services group built around Credit Suisse, said its business performance continued to be extremely satisfactory in the second half of the year.

However, Mr Rainer Gut, chairman, warned that provisions for bad debts would remain high because of the continuing business recession, especially in Switzerland.

CS reported consolidated net income of SFr883m ($588m) in the first half, up 65 per cent. Net income in the full year 1992 was SFr1.03bn.

Mr Gut was speaking at a special shareholders' meeting in Zurich to approve the creation of shares to finance the purchase of the shares of Leu Holding that it does not own.

Last month, CS bought a 15 per cent block in Leu, Switzerland's fourth largest banking group, for SFr416m in shares and cash, raising its holding in Leu to 70 per cent. It has since offered the same terms – one CS bearer share and SFr720 in cash for every six Leu shares – to the remaining minority shareholders.

Resolutions to create new shares and to split the existing bearer and registered shares 5-1 were approved.

Mr Gut gave no indication of CS's plans for Leu once the takeover was completed, but said that it was having a good year.

"The turnround at Bank Leu and successful operations at Bank Hofmann and Clariden Bank allow Leu Holding to reckon with a result that will be markedly higher than in the previous year," he said. Leu's net income was SFr104m last year.

Mr Gut said CS Holding's total assets at the end of the third quarter were practically unchanged from the SFr343.3bn reported at the end of June.

Whirlpool sells Italian division

By Andrew Baxter in London

Whirlpool, the world's largest white goods producer, is selling its Italian compressor business to Embraco of Brazil. The unusual $106m deal will create the world's second-biggest compressor producer after Matsushita of Japan.

Whirlpool is transferring its factory at Riva di Chieri, which makes Aspera brand compressors, to the Brazilian company, a long-time strategic partner in which it holds a minority interest.

The deal includes a five-year agreement to provide compressors – one of the basic components of refrigerators – to Whirlpool Europe. Embraco already supplies them to Whirlpool in South and North America.

The sale fits into Whirlpool's overall strategy of making more effective use of its global network. The two formerly-separate manufacturing units – Riva, near Turin, and Embraco's plant in Joinville, Brazil – will work together to enhance their position in the world compressor market.

Mr Miguel Etchenique, Embraco chairman, said the purchase would assure his company an important presence in Europe, the world's largest home appliance market.

Mr Ron Kerber, Whirlpool executive vice-president and chief technology officer, said the deal was logical for both companies. Embraco is one of the world's biggest manufacturers of refrigeration compressors, producing more than 9m units a year. The purchase will lift its output to 15m units.

Hoogovens share issue raises Fl 362m

Hoogovens, the Dutch steelmaker, said its two-stage issue of new share certificates over the past week raised Fl 362m ($190m), AP-DJ reports from Amsterdam.

The company said the offer was oversubscribed. Proceeds will be used to shore up Hoogovens' capital base. All 9.05m share certificates on offer were placed. The issue price was Fl 40 per certificate.

Certificates are a unique Dutch form of depositary receipt representing shares that many companies in the Netherlands place with trusts friendly to management as an anti-takeover defence.

Treuhand to offload Mibrag coal operations

Treuhand, the German privatisation agency, will today sign an agreement with investors from the US and the UK to sell the Mitteldeutsche Braunkohle (Mibrag) coal business, Reuter reports from Berlin.

The agency said Mibrag would be acquired by a consortium including PowerGen, Morrison-Knudsen and NRG Energy.

The consortium signed an agreement in principle in September to buy the coal company which owns one of Germany's largest brown coal mines. The Treuhand said it would announce further details about the sale today.

In September, the Treuhand said the consortium would pay DM2bn ($1.2bn) for Mibrag. The companies had pledged to invest up to DM1.4bn in Mibrag and employ 3,000 workers.

Mibrag is based in Bitterfeld. Employing 9,000 workers, it is one of the largest companies on the Treuhand books.

The Treuhand had expected the deal, which has been the subject of negotiations lasting more than a year, to be completed by November.

The Treuhand said it expected the mines to produce between 15m and 20m tonnes of coal a year.

Siebe shares hit despite 17% rise in profits

By Andrew Bolger in London

Shares in Siebe, the international controls and engineering group, fell 20p to 566p yesterday although the company announced a 17 per cent rise in pre-tax profits to £94.2m ($141m) in the six months to September 30.

The shares enjoyed a strong run ahead of the results and there was some disappointment that £10m of the £14m increase in pre-tax profits came from currency translation, along with concern over the impact of recession in continental Europe and Japan.

However, Mr Barrie Stephens, Siebe's veteran chairman and chief executive, struck an upbeat note: "These results are particularly gratifying at a time when many of the market places in which we trade are in recession.

"They also demonstrate the wisdom of building up our presence in the fast-growing process controls sector and in this regard our US operations are especially important."

Group turnover rose 18 per cent to £895m, of which £118m was attributable to currency translation, and earnings per share advanced 16.2 per cent to 12.6p. The interim dividend was lifted by 10 per cent to 3.66p.

Sales grew by 2.7 per cent in constant currency terms and net margins were maintained at 10.5 per cent, in spite of the impact of a £2m US pensions charge, which will continue at a similar level, and an increase in severance charges to £3m from £2m, reflecting redundancies in continental Europe.

Siebe's worst performer was its specialist mechanical engineering business. Sales in automotive and garage equipment to continental Europe declined by 19 per cent and profits fell to £4.8m from £8.5m.

This division bore the brunt of Siebe's 400 job losses during the period, although 100 jobs were created in the US. In controls, operating profits increased from £78.4m to £96.7m.

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HJ Heinz slips 15% in second term

By Frank McGurty in New York

HJ Heinz, the US food products company, yesterday said its second-quarter earnings, excluding a one-time gain for divestments, slipped 15 per cent, mainly because of the negative impact of currency fluctuations.

However, the weaker financial performance belies the underlying strength of Heinz's leading brand franchises, which showed volume growth, improved prices and better market shares in the three months to October 27.

Sales were 4 per cent ahead at $1.8bn, against $1.73bn a year earlier. However, Heinz's large presence in Britain and Italy, which have witnessed sharp devaluations of their currencies over the past 15 months, worked against the Pittsburgh-based company.

If exchange rates held steady, revenues would have shown an 11 per cent gain. Heinz does not give separate figures on its domestic and international sales and earnings.

The company, which includes Heinz ketchup, Star Kist canned tuna and 9 Lives cat food in its brand stable, said net income was $193.1m, or 75 cents a share, against $154.1m, or 60 cents, in the 1992 quarter.

If a $127m pre-tax gain from the sale of an Italian confectionery business and a US rice operation were excluded, however, earnings would work through at 51 cents.

Increased marketing expense and a higher rate of taxation also had a negative impact on the bottom line. Advertising costs and other brand support rose 13 per cent on the year, while the provision for income taxes climbed 65 per cent to $115m.

For the first six months, net income was $345m, or $1.34 a share, more than double last year's total of $164.3m, or 64 cents. Sales were 3 per cent higher at $3.39bn, against $3.3bn.

Mr Terry Bivens, an analyst with Argus Research in New York, said the performance was disappointing. Wall Street reacted to the company's announcement by marking the stock down $⅛ to $36⅝ by midday.

Postbank welcomed into the German banking fold

But the change will hurt. **Ariane Genillard** reports

The Association of German Banks yesterday dropped a two-year legal suit against Postbank, the state-owned postal bank, which was accused of keeping interest rates low with the help of state subsidies.

The move symbolically welcomes Postbank, often nicknamed "the bank without bankers" into the broader family of German commercial banks following the government's success last month in pushing its privatisation through parliament.

Postbank will sell up to 75 per cent of its equity starting in 1995. The German postal services and the state will each retain a 12.5 per cent equity stake until 1999.

Mr Günter Schneider, chief executive, said Postbank would immediately be seeking equity partners, with a preference for building societies and other savings and loans institutions.

The first equity exchange is likely to be made with the Vereinigte Post Versicherung, the insurance company which, after selling life insurances to the postal employees, has widened its client base. Mr Schneider says he plans to step up the bank's restructuring before floating shares publicly on the German stock market.

The bank also intends to strike co-operation alliances with foreign partners, mostly through Deutsche Postbank International, its recently formed subsidiary in Luxembourg. Its first cross-national venture was announced this week. Three weeks ago, Postbank opened three investment funds co-managed by the Swiss Bank Corporation. The funds will invest in European fixed-interest rates deposit certificates.

Postbank's operating results for 1992 totalled DM216m ($127m), but the bank made a loss of DM173m in 1992 after transfers to the state budget and special expenses.

> Becoming a fully-fledged independent bank will not be painless

Until last year, losses by the state-owned bank were covered by Deutsche Telekom – a measure which will stop in 1995 with privatisation. In return, Postbank will no longer pay a substantial portion of its earnings to the state. "We expect to be in the black in 1995," says Mr Schneider.

Becoming a fully-fledged independent bank will not be painless. Up to 40 per cent of the bank's staff is expected to be axed bringing the workforce down from 20,000 to 12,000 by 1996. The bank has accumulated DM1.1bn for pensions in the last two years.

The bank's divorce from the postal services will hurt those working in German post offices. With privatisation, Postbank will stop covering the wages of some 30,000 employees offering financial services behind postal counters. The measure will save the bank about DM800m a year.

Analysts estimate that the bank will only need 1,500 counters, from which it currently derives nearly 80 per cent of its business, rather than be represented in Germany's 20,000 post offices.

"We will start operating like a normal commercial bank," says Mr Schneider. "We will stay in the savings deposits business but we will offer more services. We do not want to develop new products. We want to offer known products at better prices," he says.

Postbank has started its drive to attract new customers. A new savings book, called Sparbuch 3,000 plus, has attracted 200,000 customers since it was launched at the end of 1993.

After losing customers last year, when deposits fell to DM42.5bn from DM44.8bn, the new product is expected to lift deposits to DM48bn by the end of 1993.

Other new businesses include a licence with Visa, which will allow Postbank to issue credit cards later this year.

"We will become a real player now. But we want to remain faithful to our traditional image of security," says Mr Schneider.

Electrolux may sell US subsidiary

By Christopher Brown-Humes

Electrolux, one of world's leading white goods manufacturers, said yesterday it was considering the sale of Blaw-Knox Construction Equipment, its US subsidiary, as part of a strategy to streamline its structure.

The group has decided that the business, which it acquired with its purchase of White Consolidated in March 1986, was not a core activity.

White Consolidated, said: "Electrolux is primarily a consumer goods company and Blaw-Knox does not have any relation to any of our other operations." Lehman Brothers, the US investment bank has been retained as an adviser.

Blaw-Knox is based in Mattoon, Illinois and has 700 employees. Its sales in 1993 are expected to be more than $80m.

The company is the leading manufacturer of asphalt paving machinery in the US and has large European operations based in Rochester in the UK.

Electrolux has experienced tough market conditions in 1993, particularly in Europe. But the weaker Swedish krona and restructuring helped drive a 31 per cent increase in profits in the first nine months to SKr961m ($119m).

● AEG, the German electronics group, declined to comment on reports that it was planning to sell its household appliances group to Electrolux. AEG's supervisory board meets today. Electrolux last year took a 10 per cent stake in the AEG unit.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading: Pool purchase price	Final Prices for Trading: Pool purchase price	Final Prices for Trading: Pool selling price
0030	18.22	18.07	18.07
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0130	[illegible]	[illegible]	[illegible]
0200	[illegible]	[illegible]	[illegible]
0230	[illegible]	[illegible]	[illegible]
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0330	[illegible]	[illegible]	[illegible]
0400	[illegible]	[illegible]	18.11
0430	18.17	[illegible]	[illegible]
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0530	21.19	[illegible]	[illegible]
0600	21.19	18.24	18.24
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0800	24.15	[illegible]	[illegible]
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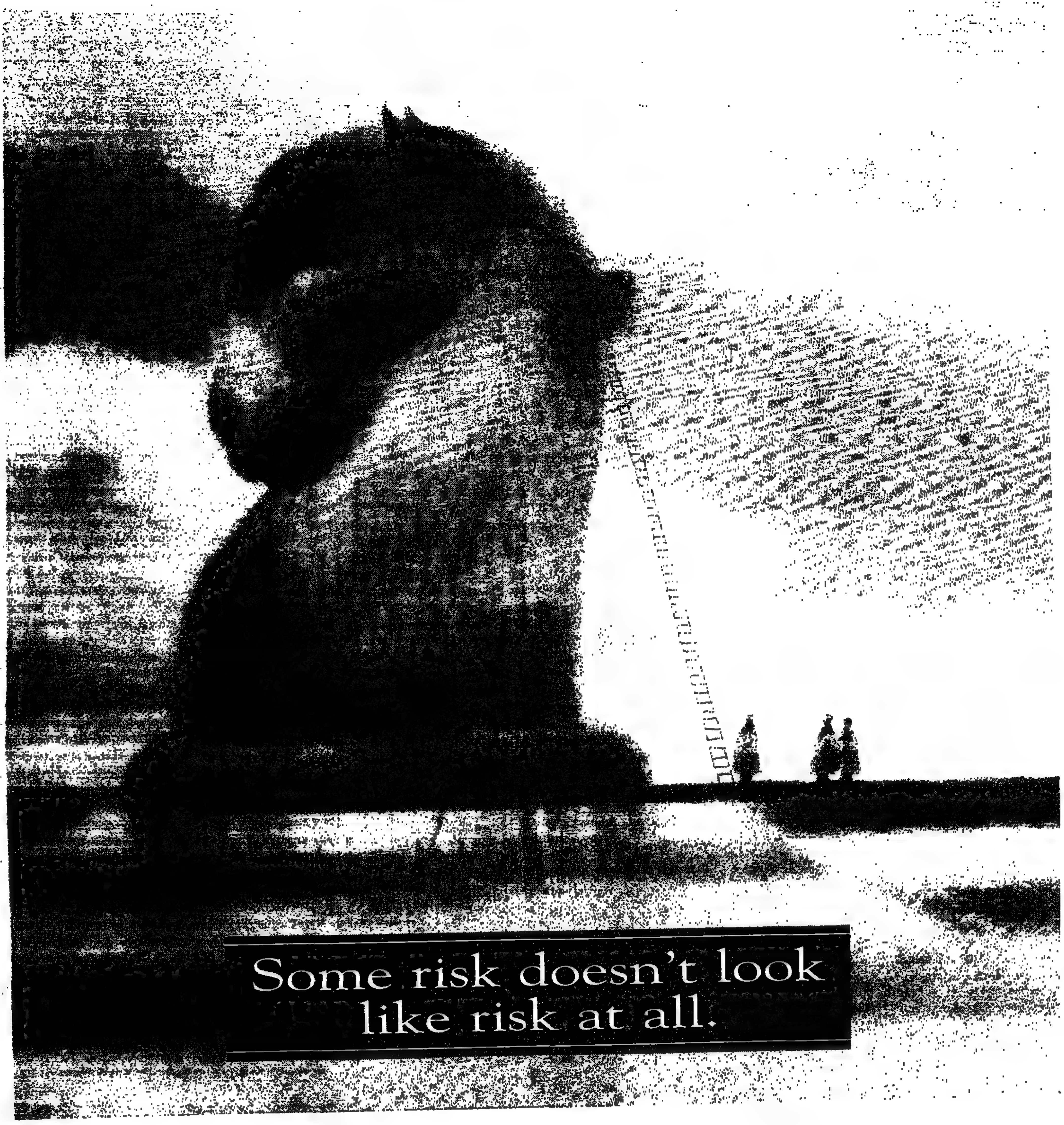


We can all take a lesson from the Trojans. No matter how something appears on the outside, it pays to look under its skin.

Suppose your business is wholly domestic. Like one of our forest products client's is. Their business is all done in their home country's currency. No need for them to worry about the ups and downs of foreign exchange.

But think again. A devaluation in the currency of an overseas competitor would make that competitor's products far cheaper in our client's home country. And deal a devastating blow to their profits.

A customized long-term currency hedge neutralized that threat. Then we created a forward pulp market to lock in raw material prices. In both cases, we replaced risk with potential profit.

Risk can wear many disguises. Helping you see beneath its surface is the strength of Bankers Trust.

Bankers Trust

LEAD FROM STRENGTH.

Sanyo plans Y22bn flash memory chip investment

By Alan Cane

Sanyo Electric, a leading Japanese consumer electronics company, is planning to invest Y22bn ($203m) in flash memory chip production.

Flash memory, an advanced silicon chip which "remembers" what has been written on it without the need for constant electronic refreshment, is now a $500m market worldwide. Forecasters are predicting 100 per cent growth each year for the foreseeable future.

It is seen as essential for success in portable computers and other portable electronics products. Intel, the world's largest semiconductor company and leader in the flash memory field, is marketing the chips as a replacement for hard disk drives in portable computers.

The technology was invented by Toshiba of Japan, but Intel secured the leadership position by improving chip designs and making them both manufacturable and affordable.

Flash memory has the advantage of high shock resistance, speed and low power consumption. While it is still more expensive than hard disk storage, it is expected to replace conventional semiconductor memory chips (DRams) as the leading high-speed memory technology by 1995.

Sanyo plans to begin production of 1m bit chips in February and 4m bit chips in May. The company has signed a licensing agreement with Silicon Storage Technology (SST), a California-based chip designer and manufacturer.

Sanyo will use SST's design and technology to manufacture the chips, which will then be supplied to the US company under the Sanyo brand name. Sanyo will also sell its chips in the merchant market, and supply processed silicon wafers, on which the chips are printed, for flash memory cards.

Sanyo said its monthly output of chips would be about 500,000 each of the 1m bit and 4m bit variety.

Sales next year from all suppliers are expected to amount to some 60m chips.

Something green stirs in the investment forest

Alison Maitland reports on a New Zealand company hoping to attract environmental investors with a new type of pine tree

Fletcher Challenge, New Zealand's second biggest company, believes it has found a solution to the depletion of the world's natural forests and the increasing shortage of timber. It is called the radiata pine.

The pine is being developed by Fletcher Challenge in its New Zealand and Chile plantations to produce a rapidly growing supply of high quality wood for construction.

It is the main attraction of a new class of share that the company has created to realise the value of its forestry assets. The shares, known variously as targeted, letter or alphabet stocks, have been used by US companies such as General Motors and USX to separate out specific activities without restructuring or floating them off. Fletcher Challenge claims to be the first large non-US company to adopt the practice.

Existing shareholders are receiving one forest division share for every four ordinary shares. "For an investor who wants liquidity on an international scale, just wants to invest in forestry and wants to be on the fast growth side, this is the unique investment today," said Mr Hugh Fletcher, chief executive.

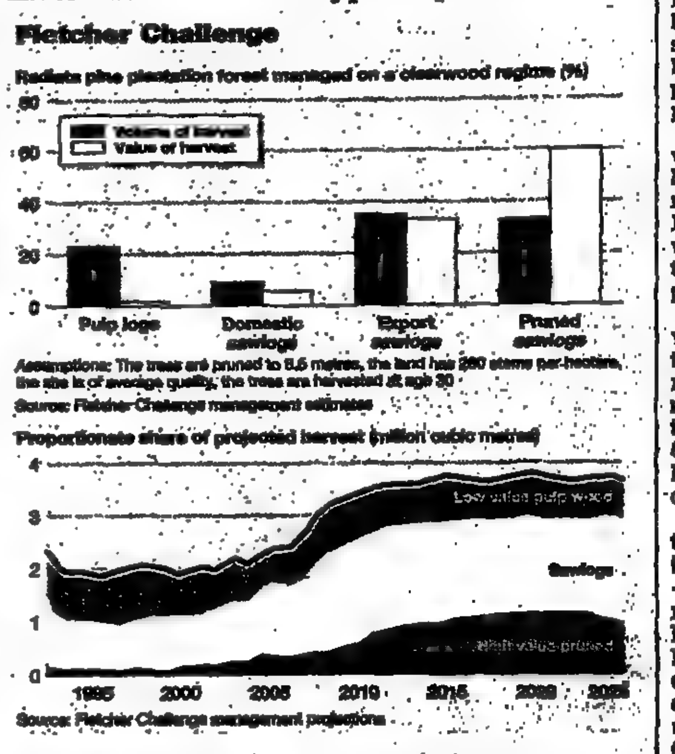
Trading in the shares in New York begins next Monday, but began last week on the Australian and New Zealand stock exchanges. It has already added about 15 per cent to the recognised value of the forest assets, taking them to about NZ$3bn (US$1.6bn).

"I would consider any initiative that does that to be a great success," said Mr Fletcher.

The 400m new shares represent half of Fletcher Challenge's total forestry assets worldwide, or 244,000 hectares of solid wood forests in New Zealand and Chile and the related log trading business.

The radiata pine accounts for 95 per cent of these plantations. It can produce a large, quality sawlog, for making solid wood products, in 25 to 30 years. Fletcher Challenge has been developing it over the past 15 years to be disease-resistant and to contain as few knots as possible.

The company estimates that this type of high-value pruned log will account for about 26 per cent of the forest division's total harvest by 2015, compared with about 2 per cent now, as plantations mature. At the same time, the overall harvest volume is expected to double to about 4m cubic metres.



The emphasis is on quality, rather than the volume of producers of timber for pulp. The New Zealand radiata pine grows by 25 to 30 cubic metres a year compared with 10 to 12 cubic metres in plantations in the southern US and three to five cubic metres in the natural forests of north west US.

The company hopes to attract investors interested in the environment, said Mr Fletcher. The way to save the rainforests "is to plant fast-growing plantations".

It expects the price of wood to rise as demand grows with an increase in population and per capita income, especially in Asia. At the same time, the supply of large logs is declining because much of the best quality timber has already been cut, particularly in south east Asia, and because conservationist pressures are reducing felling in natural forests, notably in the US states of Oregon and Washington.

"In contrast to most commodities, where real prices have declined over time, here's a commodity where nature is constraining the supply side and there's a reasonable prospect of increasing real prices," said Mr Fletcher.

The company has signed agreements with environmentalists in New Zealand, saying it will not cut down natural forests to plant the radiata pine but will use poorer quality farmland prone to soil erosion, which the trees should help prevent. Adding to the environmental attractions, it says one hectare of radiata pine extracts nine tonnes of carbon dioxide from the atmosphere every year.

Wheelock posts 61% interim profit rise

By Louise Lucas in Hong Kong

Wheelock and Co, the Hong Kong holding company for the late Sir Yue-kong Pao's listed empire, reported a 61.1 per cent rise in profits after tax and minority interests to HK$940.3m (US$121.7m) from HK$583.7m for the six months to September 30.

Wheelock, formerly World International, has interests ranging from trams to property to cable TV. Wharf Holdings, a diversified conglomerate and the company's main subsidiary, contributed some 70 per cent of profits; Wharf itself previously announced a 44 per cent increase in first-half net earnings to HK$1.35bn.

Mr Peter Woo, Wheelock's chairman, said profits improved on the back of largely healthy performances from all associates.

Analysts said much of the growth in earnings was made from treasury operations. Income from this source rose by around 40 to 45 per cent; stripping out these earnings, brokers reckoned underlying profits growth was closer to 30 per cent.

Mr Woo said the group would pursue its strategy of buying stakes in companies manufacturing in both Hong Kong and China, which sell to western industrialised countries but which may have potential markets in China.

Since the name change two weeks ago, Wheelock Pacific, the company's investments, retail and trading arm, has made its first investment by taking a 26 per cent stake in Climax International, a Hong Kong-listed paper products company.

Wheelock's stated policy is to invest up to 20 per cent of its balance sheet – or HK$20bn – in China. The group's investments in China are currently less than 10 per cent of assets; however, Mr Woo said it would embark on many projects over the next two years that would increase exposure to China by a further 5 to 10 per cent of assets.

Earnings per share over the six months rose to 46.1 cents, compared with 28.5 cents in the same period last year. Shareholders are to receive a dividend of 9.5 cents a share, up from 7.5 cents last year.

NEWS DIGEST

Downturn at Canadian food group

Univa, Canada's second biggest food distributor, which is being reorganised with new senior management, reports net income of C$7.6m (US$5.7m), or 7 cents a share, for the third quarter to November 6, down from C$9m, or 8 cents, a year earlier, on sales 4.3 per cent lower at C$1.43bn, writes Robert Gibbens in Montreal.

After special charges totalling C$117m, Univa's final net loss was C$74.1m, or 88 cents, in the latest quarter.

Nine-month operating net income was C$25.6m, or 23 cents, compared with C$17.7m, or 16 cents, on sales little changed at C$4.8bn. After special charges, the nine-month net loss was C$59.1m, or 75 cents.

Univa is now controlled by the Caisse de Depot, the Quebec pension fund investment manager, and the Sobey family of Nova Scotia.

The new management, headed by chairman Mr Pierre Michaud, is reorganising the group to improve profitability and analysts expect the Californian subsidiary to be sold.

Elders Australia oversubscribed

An initial public offering of shares in Elders Australia has closed heavily oversubscribed, AP-DJ reports from Sydney.

Mr Jim Rayner at underwriter Barclays de Zoete Wedd Australia said the issue raised A$98.2m (US$43.8m).

Elders Australia is likely to list on the Australian Stock Exchange in the week starting December 20, Mr Rayner said.

HK travel group changes hands

Malayan United Industries' Hong Kong unit, Firstway International Investment, has bought 52.8 per cent of Morning Star Holdings and will make a general offer for the Hong Kong-based travel company, Reuter reports from Kuala Lumpur.

In the HK$229.91m (US$19.23m) deal, Firstway bought 161.91m Morning Star shares at HK$1.35 each and 32.38m warrants at HK$0.35.

INTERNATIONAL COMPANIES AND FINANCE

Top Canadian bank battered by loan losses

By Bernard Simon in Toronto

Royal Bank of Canada, the country's biggest financial institution, has had another disappointing year, with earnings hit by restructuring charges and unexpectedly high loan losses, especially in real estate.

Net earnings totalled C$300m (US$225.7m), or 46 cents a share, in the year to October 31, compared with C$107m, or a loss of five cents a share, in 1992. Return on equity was a meagre 2.4 per cent, following last year's negative return of 0.3 per cent.

The previously-announced charges, totalling C$410m, reflect the costs of integrating the operations of Royal Trust, which the bank acquired earlier this year, and an internal restructuring plan. RBC is cutting 4,100 jobs from its payroll, equal to almost 8 per cent of its workforce.

After the charges, the bank posted a C$420m fourth-quarter loss, equal to C$1.47 a share, against a loss of C$473m, or C$1.63, a year earlier.

Loan-loss provisions for the year were C$1.75bn.

This is lower than the C$2.05bn set aside in 1992, when the bank was hit by its exposure to Olympia & York, the failed real estate developer.

The final 1993 provisions, however, are more than double the C$820m estimated at the end of the first quarter. Provisions for sour commercial real-estate loans have now reached 20 per cent of the bank's gross property portfolio.

Ms Donna Toth, analyst at Nesbitt Thomson in Toronto, said RBC's problems stemmed from aggressive lending policies with inadequate controls. Several of the bank's most senior corporate credit officers have taken early retirement in the past year.

On the brighter side, Mr Allan Taylor, chairman, said retail banking and treasury operations performed strongly, while the bank's investment banking subsidiary, RBC Dominion Securities, posted record earnings. Non-performing loans have dropped to C$3.26bn on October 31 from C$3.48bn a year earlier, with the level of non-performing consumer loans falling for the first time in four years.

The inclusion of Royal Trust from September boosted assets by 19 per cent to C$164.9bn. Royal Trust's operations have been "close to" break-even since then.

Strong sales at Deere lift pre-charge profits

By Laurie Morse in Chicago

Fourth-quarter earnings at Deere and Company, the US agricultural, industrial and lawn equipment manufacturer, jumped to $103.5m, or $1.33 a share, in the fourth quarter, before special accounting charges.

Deere said strong North American sales in all equipment lines boosted profits.

Last year the group recorded fourth-quarter profits of $4.2m, or 5 cents.

Before special charges, Deere posted full-year income of $286.3m, or $3.70 a share, up from $37.4m, or 49 cents, a year ago. Including the special charges, it suffered a net loss of $920.9m, or $11.91, in fiscal 1993. Those charges included a one-time accounting charge of $1.1bn for post-retirement employee benefits.

Despite the $80m restructuring of its European operations, announced in the second quarter, overseas agricultural equipment operations incurred significant operating losses in the fourth quarter and for fiscal 1993.

The full-year's losses "substantially exceeded" last year's operating loss.

Deere's worldwide sales jumped 15 per cent to $3.18bn in the fourth quarter, from $1.9bn in the same 1992 quarter. Production tonnage was up 31 per cent from last year's fourth quarter, when Deere shut down some of its factories to limit the build-up of inventories.

For the fiscal year, Deere reported worldwide sales of $7.75bn, up 11 per cent from 1992's $6.96bn. North American equipment sales made up $4.9bn of that total, up 19 per cent from last year.

Mr Hans Becherer, chairman, said North American sales of agricultural equipment in 1994 should reach 1993 levels.

"Due to the lower 1993 grain production and the resulting reduction in carry-over stocks, a substantial increase in planted and harvested acreage of corn and soya beans is expected in 1994," he said.

AMR warns of costs of attendants strike

AMR, parent of American Airlines, estimates that fourth-quarter after-tax earnings will be reduced by more than $160m because of the strike by flight attendants last month, agencies report.

As a result, AMR would report a "significant loss" for the fourth quarter and a loss for the year. For the fourth quarter ended December 31 1992, AMR reported a loss of $200m, or $2.66 a share, on revenues of $3.6bn.

The airline said it lost about 1.3m passengers in November because of the dispute.

Flight attendants at American Airlines went on strike for five days just before the November 25 Thanksgiving holiday. The strike ended after President Clinton intervened.

The company said its system-wide load factor in November declined 7.63 points, to 51.44 per cent from 59.07 per cent a year ago, due to the strike.

It said November system-wide revenue passenger miles fell 16.8 per cent to 6.28bn from 7.55bn a year ago, while available seat miles declined 4.5 per cent to 12.21bn from 12.78bn.

For the year to date, load factor declined to 60.5 per cent from 64 per cent.

BCE tunes into a multi-media future

Bernard Simon and Robert Gibbens examine the Canadian telecom's investment plan

Many companies in the fast-evolving telecommunications business are bigger than Canada's BCE. However, in the scramble for a toehold in the converging worlds of telephones, cable television and entertainment, only a handful have managed to leave their footprints in as many places.

With its plan to buy an initial 30 per cent stake in Colorado-based Jones Intercable, BCE is now about to secure a significant presence in one of the pioneering parts of the business – the US cable-TV industry.

"We're not finished," says Mr Derek Burney, chairman of BCE Telecom International, a wholly-owned unit through which BCE is channelling its international expansion.

BCE Telecom's mandate, Mr Burney says, is "to make investments internationally covering the full range of telecommunications in areas where we either have expertise to offer or where our expertise will complement that of our partner in a way that we both benefit".

Mr Burney, who until last year was Canada's ambassador in Washington, says BCE is especially seeking opportunities in Latin America and Asia.

BCE's telecom interests now stretch from stakes in Canadian, UK and New Zealand telephone companies, to a 52 per cent interest in Northern Telecom, the telephone equipment maker. It also has interests in cable-TV franchises, telephone directories, and cellular and mobile phone systems.

The decision to focus on telecommunications marks an about-turn from BCE's strategy a decade ago. Then, the prospect that its offshoot, Bell Canada, would not maintain its stranglehold on Canada's domestic telephone market led BCE into an ambitious – and costly – diversification.

However, Mr Raymond Cyr, architect of BCE's entry into financial services, pipelines, computer services, printing and property development, made way in 1990 for Mr Red Wilson, former head of Tate & Lyle's Canadian subsidiary.

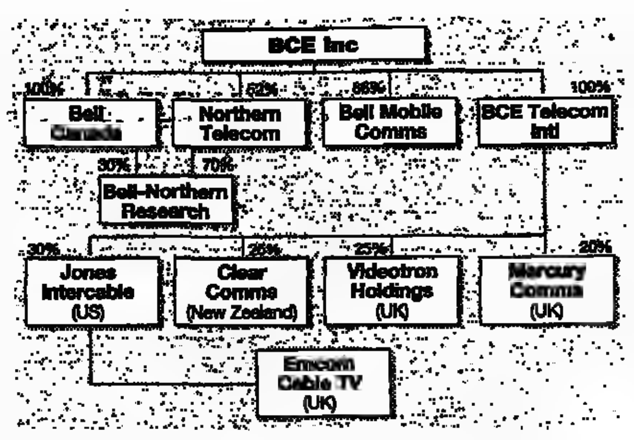
The unflappable Mr Wilson, 53, has often said that the survival of any serious player in the telecommunications business depended on its ability to deliver a wide range of services.

The last of the non-telecom businesses, comprising financial services group Montreal Trustco and property developer Brookfield Development, were sold last week. A C$750m (US$564.3m) loss on these investments will be charged to BCE's fourth-quarter earnings.

The Montreal Trustco sale has left BCE with a stake of almost 5 per cent in Bank of Nova Scotia, Canada's third-biggest bank.

BCE's latest purchase is one of the US's lesser-known but more innovative cable-TV companies. Mr Glenn Jones, chairman and controlling shareholder of Jones Intercable, "is considered one of the industry's visionaries," says Mr George King, analyst at Canseco Capital Management in Indianapolis.

Jones Intercable is among the pioneers in bringing school and university courses to cable-TV subscribers – a service which has yet to catch on. It also has several interests in the entertainment business, among them a subsidiary which provides programmes to 600 US radio stations.



BCE and Jones became acquainted through their joint ownership of Encom Cable, which owns six contiguous franchises in London. Besides cable-TV, Encom offers voice and data services in its franchise area, a model which North American telephone and cable companies are seeking to emulate.

Jones is the seventh-biggest US cable operator. However, its strength is not so much the cable systems which it owns, as those which it manages on behalf of about 20 limited partnerships.

The partnerships are typically liquidated after between five and seven years, leaving Jones with an interest in the residual value and an obvious route for expansion.

Much of the $400m which BCE has committed to invest in Jones is likely to be earmarked for purchases of systems owned by defunct partnerships, as well as outside systems. BCE has an option to lift its 30 per cent stake in Jones to a controlling one.

While BCE's diversification drive in the 1980s proved to have been an indisputable mistake, its telecommunications investments have not been trouble-free either. Northern Telecom is in the middle of a painful restructuring, having lost $989m in the first nine months of this year.

Bell Canada, BCE's cash cow, is also in transition, hobbled on the one hand by growing competition in Canada's long-distance telephone market, and on the other, by continuing regulation of its monopoly on local services in Ontario and Quebec.

BCE's challenge, like that of other companies trying to bring the strands of the telecommunications and cable-TV businesses together, is to demonstrate that a stable of diverse investments can produce more innovation and a better return for shareholders than each company operating by itself.

BCE's consulting arm, Bell Canada International, will be integrated with BCE Telecom next month as part of the effort to promote exchanges between the companies in which BCE is a shareholder.

Mr Burney says: "We're not looking to some grand international alliance where all the pieces come together." However, he points to the cable-cum-telephone partnership with Jones in the UK, and says: "We do see complements."

BCE and Mercury Communications, the UK telephone company in which BCE bought a 20 per cent stake earlier this year, have begun to tap into each other's resources.

About half-a-dozen Bell Canada managers have been parachuted into senior positions at Mercury, while several Mercury employees have been seconded to Bell. BCE and Cable & Wireless, Mercury's parent, are meeting in the UK this week to discuss further co-operation.

Similarly, Jones has commissioned Bell-Northern Research, Canada's biggest privately-owned research group, to help on a systems integration project.

"We would expect that the full range of the family's expertise could be brought to bear in some shape or form in this investment, as it has in others," Mr Burney says.

Revamp at metals group

Reynolds Metals, the US aluminium group, is considering restructuring some of its operations, mainly in the fabricating area. It wants to improve worldwide performance in "extremely difficult market conditions" in the aluminium industry, Reuter reports.

The actions could result in charges of between $150m and $225m after tax, or $2.50 to $3.75 per share, the group said.

It said the most significant operations being looked at were parts of its business at the McCook, Illinois, sheet and plate plant.

● Freeport-McMoRan Copper & Gold of the US said its PT Freeport Indonesia unit was to sell its existing and planned power transmission and generating assets for about $200m.

The buyer is a joint venture between Duke Energy, an affiliate of Duke Power, and Power-Link, a unit of Northstar Energy.

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INTERNATIONAL CAPITAL MARKETS

US Treasuries slip as prices of crude oil recover

By Frank McGurty in New York and Sara Webb in London

With crude oil prices firming, US Treasury bonds slipped yesterday morning after the vice-chairman of the Federal Reserve said vigilance was required on inflation in view of the economy's growth rate.

By midday, the benchmark 30-year government bond was down $\frac{5}{32}$ at 101, and the yield rose to 6.17 per cent. At the short end, the two-year note was off $\frac{1}{32}$ at 100$\frac{3}{32}$, to yield 4.183 per cent.

After the long bond surged nearly a point on Monday, selling pressure resurfaced as oil prices firmed on the Nymex. Crude oil futures had tumbled to five-year lows late in the previous session.

Bond activity remained light, however, ahead of the release later this week of November price data, which are expected to show inflation is in check, at least for the moment.

Traders now appear less concerned with current conditions than with possible developments in the first quarter of next year. Comments by Mr David Mullins, the Fed vice-chairman, served to support the view that the central bank could move to increase short-term interest rates sooner rather than later.

His remarks held bond prices in negative territory, aided by profit-taking by dealers and speculative buyers, who had helped bid up the market during the past two sessions.

■ UK government bonds slipped by between $\frac{1}{8}$ and ¼ point ahead of today's gilt auction, with stock in the auction area experiencing the largest declines.

The Bank of England is auctioning £3bn of 6¾ per cent stock due 2004, and dealers said the 10-year area of the curve underperformed other maturities as market-makers and clients prepared for the sale of stock.

■ Despite the release of a batch of "bond-negative" news yesterday, German government bonds rallied and closed firmer, though off the highs of the day.

GOVERNMENT BONDS

The upward revision in October money supply data came as a disappointment since market participants had expected any adjustment to be downwards: M3 money supply grew at an *annualised rate of 6.9 per cent*, up from the provisional 6.8 per cent reported last month.

However, even less encouraging was the release of higher than expected GDP figures, which showed that western German GDP grew by a seasonally adjusted 0.5 per cent in the third quarter.

■ The high-yielding European bond markets saw strong gains initially, with Spain following Germany's strength early in the day and rising three-quarters of a point, helped by renewed foreign interest.

The Italian government bond market also saw a good rise on the back of confidence in the political situation, but lost some of the gains when news emerged that the treasurer of the Italy's federalist Northern League party had been arrested on suspicion of corruption. Prices ended about a *quarter point higher.*

■ Dutch government bonds closed firmer, with the new tap stock providing the main focus of attention in the market.

The finance ministry said the tap sale of the new 5.75 per cent bond due 2004 raised Fl 1.8bn yesterday after Monday's Fl 7.5bn. Today will be the last day of the tap sale.

■ Japanese government bonds continued to climb to new intra-day highs, prompted by hopes of a cut in the official discount rate, but prices slipped back on profit-taking to end the day little changed overall.

The March futures contract rose from its opening level of 116.58 to touch a high of 116.69 before closing at 116.54. In the cash market, the yield on the benchmark No 157 JGB opened at 3.15 per cent and ended at 3.185 *per cent, corresponding to* the low price of the day.

Market participants said several contributing factors were driving the rate cut hopes. Last week, Bank of Japan and government officials were reported to be predicting an ODR cut in the week of December 13.

At the same time, the central bank has allowed money market rates to slip below 2 per cent, which some regard as a sign that an official rate cut is in the wings.

The steady stream of depressing economic news is expected to continue with the release this week of third-quarter GDP figures and the release on Friday of the quarterly Tankan survey of business sentiment, which is expected to be gloomy.

Mr Gerard Lyons, international economist at DKB International, predicts that GDP will fall by 1.0 per cent quarter-*on-quarter: "I'm expecting to* see the biggest quarter-on-quarter drop since the first quarter of 1974."

Warburg arm leads US stock issue for Cummins Engine

By Patrick Harverson in New York

The US subsidiary of SG Warburg took another step in its attempt to gain a profitable foothold in the US capital markets yesterday when it lead-managed a *$112.7m* issue of new common stock for Cummins Engine, the big Indiana-based engine manufacturer.

Although the deal is not particularly large by US standards, it is rare for the US arm of a European investment bank to lead-manage an equity issue by a well-known US corporation. While Warburg has co-managed a number of US issues, Wall Street investment banks traditionally run the books for US companies.

Warburg's New York unit, under its American chairman Mr Thomas Wyman, has been pursuing US underwriting business aggressively in the past two years as part of a strategy to reduce the firm's reliance on European investment banking transactions and building a US business independent of the UK parent.

At the same time, Warburg has continued to emphasise its *strengths in international capital* markets. It was this global reach that helped the firm win the mandate from Cummins.

The company, which is the world's largest manufacturer of engines, with almost half of its sales generated overseas, wanted to sell a large part of its new stock issue to non-US investors.

Although Cummins would not say why it chose Warburg as lead underwriter, Mr Michael Cohrs, head of equity syndication at Warburg, said the firm's ability to distribute Cummins' shares to non-US investors, particularly in the UK and continental Europe, was a crucial factor in winning the deal.

Three big US firms, CS First Boston, Goldman Sachs and JP Morgan Securities, were co-managers of the issue.

Ultimately, about 45 per cent of the 2.3m common shares sold in yesterday's issue went to non-US investors, primarily in the UK, Japan, Switzerland, Denmark and France.

Warburg said the issue was oversubscribed. It was priced at $49 per share and by early afternoon Cummins shares were trading at $49¾ on the New York Stock Exchange. Cummins will use the sale proceeds to reduce its debt.

Rare equity-linked warrant offering from Dresdner Bank

By Antonia Sharpe

Dresdner Bank raised DM475m through a five-year issue of equity-linked warrant Eurobonds yesterday, a form of financing which has become virtually extinct in Germany due to shareholder opposition to waiving pre-emptive rights.

Only two such issues have been launched this year, by companies which still had authorisation from their shareholders to raise equity-linked *financing without offering pre-emptive rights.*

In March, Allianz, the insurance group, raised DM950m through a five-year issue of equity-linked warrant Eurobonds while Veba, the utility, raised $300m through a seven-year Eurobond issue with equity warrants.

An official at Dresdner Bank said the bank had been keen to launch the deal before its authorisation from shareholders expired in the spring.

In recent years, German companies have been discouraged from seeking further authorisations at annual meetings because of shareholder opposition.

INTERNATIONAL BONDS

Bankers said that in the future, raising equity-linked financing would be a far more complicated process because the bonds would have to be offered to shareholders first.

The rarity value of these issues contributed to the success of Dresdner's offering. The bonds, which were priced at 115, traded at 116.70 bid late in the afternoon.

The warrants were quoted at 18.50, compared with their theoretical value of 17.40, thereby increasing the conversion premium to 18 per cent from 16 per cent at the launch.

Elsewhere, the Province of New Brunswick made its annual outing to the Eurobond market when it raised C$200m through an issue of 20-year Eurobonds, the first offering *with this maturity in the Canadian dollar sector.* The borrower last tapped the Eurobond market in March 1992.

Lead manager Wood Gundy is donating the commissions and trading profits from this deal to Children in Crisis, a charity currently concentrating its aid efforts on children in the former Yugoslavia. Around C$150,000 was raised yesterday but Wood Gundy hopes to raise a total of C$2m.

The bonds were priced to yield 100 basis points over 10-year Canadian Treasuries but were not freed to trade late yesterday.

Syndicate managers expect the Republic of Argentina to launch its first issue of global bonds today. The 10-year offering, via Merrill Lynch and Salomon Brothers, is likely to raise $750m, up from an original amount of $500m. The bonds are likely to be priced to yield around 280 basis points over US Treasuries.

There were also rumours that a Scandinavian sovereign borrower was interested in taking advantage of arbitrage opportunities which are currently available in the 10-year area of the Euro-yen sector.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Yodogawa Steel Works♦	300	1.75	100.00	Dec.1997	2.25	-	Nikko Europe
Celulose Nipo-Brasileira(a)	175	9.375#	98.48R	Dec.2003	1.00R	+375(5¼%-03)	Citibank International
European Investment Bank	100	4.50	99.73R	Jan.1997	0.1875R	+7 (4⅞%-96)	DKB Intl./Nikko Europe
Pohang Iron & Steel Co.‡	75	(b)	100.00	Dec.1996	0.25	-	Nomura International(HK)
D-MARKS							
Dresdner Finance(c)♦	475	5.375	115.00	Jan.1999	2.25	-	Dresdner Bank
YEN							
Taisei Corp.(d)	30bn	3.80	100.075R	Mar.2001	0.325R	-	Yamaichi International
Taisei Corp.(d)	10bn	3.05	100.125R	Mar.1996	0.25R	-	Nikko Europe
Taisei Corp.(d,e)	10bn	2.70	100.20R	Mar.1998	0.35R	-	Fuji Intl. Finance
Toda Corp.(f)‡	10bn	(f)	100.00R	Mar.1996	0.30R	-	Mitsubishi Finance Intl.
CANADIAN DOLLARS							
Province of New Brunswick	200	7.75	99.125R	Jan.2014	0.40R	+100(7¼%-03)	Wood Gundy

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ♦With equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Puttable on 21/12/98 at 96.89%. b) Coupon pays 6-month Libor + 0.25%. c) Denom.: DM10,000 + 55 warrants. 4 warrants entitle holder to 1 Dresdner share at DM440. Warrants are extendable twice by 1 year to a maximum of 7 years if shares are trading below exercise price. d) Short 1st & 2nd coupons. e) Puttable on 19/3/97 at par. f) Short 1st coupon. Coupon: 3% until 24/3/97 and 6-month Libor - 0.125% thereafter. Puttable on 24/3/97 at par.

SBC in Mexico venture

By Laurie Morse in Chicago

Swiss Bank Corporation and Mexico's largest private financial group, Grupo Financiero Banamex-Accival, are to form an alliance to trade Mexican equity derivative products.

SBC said the move would strengthen its presence in Mexico, where it expects to see more initial public offerings and investments by global money managers.

Starting next year, the joint venture plans to make markets in over-the-counter options on equities, exchange-listed warrants, futures and forwards, equity swaps and convertibles.

Grupo Financiero's two main subsidiaries are the National Bank of Mexico and Accival, the securities broker.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/02	121.4100	+0.010	6.75	6.80	6.56
Belgium		9.000	03/03	115.1200	+0.210	6.75	6.84	6.99
Canada *		7.500	12/03	105.6000	+0.350	6.69	6.88	6.78
Denmark		8.000	05/03	111.0000	+0.150	6.32	6.43	6.42
France	BTAN	6.500	05/98	109.3700	+0.300	5.28	6.07	6.10
	OAT	6.750	10/03	105.6200	-0.230	5.96	6.00	6.12
Germany		6.000	09/03	101.2100	+0.100	5.83	5.87	5.86
Italy		9.000	10/03	100.2900	+0.590	8.95†	9.46	9.11
Japan	No 119	4.800	06/99	110.9710	+0.050	2.54	2.76	2.67
	No 157	4.500	06/03	109.6510	+0.240	3.18	3.41	3.52
Netherlands		6.500	04/03	105.0000	+0.180	5.79	5.83	5.60
Spain		10.500	10/03	113.6500	+0.810	8.42	8.56	8.67
UK Gilts		9.750	01/98	114-03	-8/32	5.80	6.04	6.17
		8.000	06/03	111-00	-5/32	6.43	6.62	6.61
		9.000	10/08	121-03	-2/32	6.73	6.87	7.16
US Treasury *		5.750	08/03	100-11	+8/32	5.70	5.83	5.59
		6.250	08/23	100-28	+12/32	6.18	6.31	6.12
ECU (French Govt)		8.000	04/03	112.2000	+0.300	6.23	6.41	6.60

London closing, *New York mid-day. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	124.54	124.62	+0.02	124.70	124.44	110,654	126,429
Mar	128.40	128.34	+0.06	128.54	128.20	102,072	85,935
Jun	127.76	127.76	+0.04	127.82	127.56	107	3,254

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.25	115.20	+0.42	115.58	114.90	37711	82196
Jun		115.35	+0.50			0	27

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Ecu

■ ECU BOND FUTURES (MATIF)

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Tue Dec 7	Day's change %	Mon Dec 6	Accrued interest	xd adj. ytd
1 Up to 5 years (25)	130.77	-0.02	130.80	2.57	10.03
2 5-15 years (21)	161.34	+0.03	161.30	2.74	11.55
3 Over 15 years (9)	185.66	+0.11	185.46	2.45	11.21
4 Irredeemables (6)	219.31	+0.36	218.51	1.27	12.71
5 All stocks (61)	156.38	+0.03	156.34	2.66	11.11

Yields	Low coupon Dec 7	Dec 6	Yr. ago	Medium coupon Dec 7	Dec 6	Yr. ago	High coupon Dec 7	Dec 6	Yr. ago
5 yrs	5.71	5.66	7.36	5.95	5.95	7.64	6.07	6.07	7.88
15 yrs	6.62	6.62	8.25	6.73	6.74	8.68	6.82	6.82	8.97
20 yrs	6.72	6.73	8.48	6.77	6.77	8.84	6.94	6.94	9.05
Irred.†	6.84	6.87	8.90						

Index-linked

Debentures and Loans

FT FIXED INTEREST INDICES

GILT EDGED ACTIVITY INDICES

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 7

US DOLLAR STRAIGHTS

FLOATING RATE NOTES

CONVERTIBLE BONDS

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UK GILTS PRICES

Shorts (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

Other Fixed Interest

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Outcome boosted by cost controls and defence of market share

Chubb Security advances 37%

By Tim Burt

Chubb Security, the electronic alarm and locks group, yesterday announced a 37 per cent increase to £34.2m in pre-tax profits for the six months to October 8.

The increase, achieved on turnover up from £338m to £355.1m, was due mainly to tight cost controls and success in defending market share since the demerger last year from Racal.

Turnover, however, would have been almost flat had it not been for £9.5m generated by exchange rate movements and changes in accounting policies for currency translation.

Beneficial exchange rates also contributed £1.1m to operating profits, up from £27.1m to £35.3m.

The policy change involves translating turnover and profits from Chubb's extensive overseas operation at an average exchange rate during the half year, rather than by the prevailing rate at the end of the accounting period.

Earnings per share rose from 4.75p to 7.08p, and the interim dividend is 2p (1.5p).

Mr David Peacock, chief executive, said: "In spite of the worldwide recession and provided present trading conditions do not worsen, prospects for the full year are expected to be satisfactory."

He also emphasised his determination to press ahead with the second phase of a cost-cutting programme which has already resulted in £23m in savings since mid-1992.

The programme is designed to increase Chubb's operating margins and share of a worldwide market estimated at £7bn. It has already begun to refocus its operations with cutbacks in administrative staff and increased emphasis on a larger sales force.

Cutbacks in administrative staff were largely to blame for £1.9m in redundancy costs, although this was down sharply on a £5.7m charge at the half year stage last time.

As part of the rationalisation, Chubb said it had introduced 13 new products in the period, with seven more planned before the year end.

Most of the new products are aimed at increasing the market share for the group's electronic security division.

Turnover in the division increased from £170.3m to £178.2m in the half year. Operating profits also increased to £17.9m, compared with £14.9m last time.

In the physical security division – manufacturing locks, safes and fire extinguishers – turnover rose from £167.8m to £176.9m.

Operating profits came in at £17.4m (£12.1m).

Improved cashflow, meanwhile, of £13.1m turned net debt of £4.8m at the year end in March into net cash of £8.3m at the half way stage.

See Lex

Tony Andrews

Sir Ernest Harrison, chairman (left) with David Peacock, chief executive: new products aimed at increasing market share

BAe scales back talks on sale of Dutch arm

By Ronald van de Krol in Amsterdam

Talks on the sale of Ballast Nedam, British Aerospace's Dutch construction subsidiary, are to be scaled back after BAe and Boskalis, the Dutch dredging company, failed to reach agreement on a full takeover.

Boskalis, which had said in October that it was prepared to pay about Fl 500m (£177m) for Ballast Nedam, will continue to discuss other forms of co-operation with Ballast Nedam short of outright acquisition.

BAe said it still intended to sell Ballast Nedam. "Discussions will continue with Boskalis on a non-exclusive basis with the possibility of other parties becoming involved in these or other negotiations," it said.

Boskalis's exclusive rights to negotiate a Ballast Nedam deal expired on December 1. The three companies would not say why a takeover had not proved to be possible. BAe said there had been no material change in Ballast Nedam's financial position since the negotiations began.

Boskalis, which had earlier announced plans for a Fl 300m share issue to help pay for the acquisition, said it was now calling off the share issue.

The failure of the merger talks renews uncertainty about Ballast Nedam's future. Earlier this year Ballast Nedam's chairman resigned after BAe turned down his plan for a flotation on the Amsterdam stock exchange.

Lonrho withdraws backing for Lockerbie bomb film

By Roland Rudd and Robert Peston

Lonrho, the international conglomerate, has withdrawn financial backing from a controversial film about the Lockerbie bombing, which it is co-financing with Libya.

Mr Stephen Walls and Mr Peter Harper, two of Lonrho's newly-appointed non-executives, persuaded the Lonrho board to end its involvement in the film. They are also expected to press for Lonrho to withdraw from further co-operation with Libya, which owns a third of Lonrho's Metropole Hotels subsidiary.

Mr Dieter Bock, the German joint chief executive, was also keen to abandon the film project, which had been started on the initiative of Mr Tiny Rowland, his fellow joint chief executive.

However, Mr Allan Francovich, the film's producer, said yesterday that he had not been informed by Lonrho of its withdrawal of a £633,000 contribution to the film. He added: "I am not going to be stopped [from completing the film] by anyone". He said that he had insisted there should be no interference from Libya or Lonrho in the content of the film and that he had uncovered a considerable amount of new evidence about who carried out the bombing in 1988, which resulted in 270 deaths.

The United Nations has recently frozen Libyan assets held abroad to increase pressure on it to hand over for trial in the west suspects accused of blowing up the Pan Am airliner.

Mr Rowland, however, yesterday said he and Mr Bock were "at one" on the Libyan issue. While the board had decided to stop the financing of the film "for the time being", he said that work already completed was of commercial value to Lonrho. He recently said that Lonrho was ready to complete deals worth hundreds of millions of pounds with Libya if the documentary film showed it to be innocent of the Lockerbie bombing.

Mr Rowland is now satisfied that the Libyans were not involved in the bombing. "There was no sign of their involvement at all. If there had been any evidence ... we would have handed it over to the British government", he said.

Inspirations joining USM

By Michael Skapinker, Leisure Industries Correspondent

The tour operating sector acquired its third quoted company yesterday with the placing of 28.3 per cent of the shares of Inspirations, the holiday company.

The company is to be listed on the Unlisted Securities Market, with dealings expected to begin on December 13.

The two other quoted companies involved purely in the package holiday business are Airtours and Owners Abroad, the second and third largest tour operators. The holiday market leader, Thomson, is a Canadian-controlled public company, but also has extensive media interests.

Mr Vic Fatah, Inspirations' chief executive, was the founder of Summed Holidays, which merged with the tour operating arm of British Airways in 1987 to create Redwing Holidays.

Redwing was sold to Owners Abroad in 1990.

The placing by stockbrokers Beeson Gregory values the company at £23m. The company said the placing was twice subscribed.

In the 11 months to September 30, Inspirations made pre-tax profits of £2.5m on £118.4m turnover. The company carried 166,700 people during the period. In the year to October 31 1992, pre-tax profits were £749,000 on turnover of £49.7m.

The company sells holidays under the Inspirations and Style brands. It also has a retail arm with five travel agency outlets. Under an agreement reached last May, AT Mays, the UK's fourth largest travel retail chain, manages the chains under its name. Inspirations has undertaken to acquire or start up a minimum of 50 retail outlets by the end of next year, which will also be managed by AT Mays.

Inspirations also has an airline seat broking business, operating under the name of Goldcrest, but does not have any aircraft of its own.

Allied Colloids drops to £19m as higher costs bite

By David Blackwell

Shares in Allied Colloids, the chemicals company, fell 10p to 228p yesterday as pre-tax profits for the six months to October 2 dropped 15 per cent from £22.5m to £19m.

While the fall was predicted at the AGM in August, it turned out to be greater than expected. The company blamed exchange rate movements and other increased costs, including insurance.

Overhead costs rose by about 16 per cent. The insurance premium rose from £1.5m a year to £5m following a fire at Bradford in July. The costs of defending patents also increased.

Sales rose by 17 per cent from £136.3m to £159.3m. However, about 10 per cent of the increase was accounted for by the change in exchange rates following the UK's departure from the ERM.

The company increased sales in all areas apart from the UK, which accounts for about 15 per cent of group turnover.

Sales in North America grew to £52m (£44.4m) and in Asia to £13.1m (£12.5m). European sales improved to £53.8m (£45.5m), but the company reported continuing difficulties in Germany.

Sterling devaluation hit the cost of petrochemicals and other raw materials, many of which are priced in D-Marks. The company had been unable to recover this in selling prices.

The second half is expected to be better as exchange rate benefits emerge as a result of hedging currencies.

The company also said that raw material prices had stabilised, and it expected a modest improvement in margins.

Earnings per share fell to 4.99p from 5.47p. The interim dividend is increased from 0.94p to 1p.

● COMMENT

The City, disappointed that the first half had come in below £20m, yesterday downgraded its full year forecasts from £50m. It is now expecting pre-tax profits to be about £44m – roughly equal to last year. This implies a much better second half as about £5m flows in through currency benefits. While sales continue to show strong growth, the rise in costs gives some cause for concern. On the latest forecasts the shares are on a prospective p/e of almost 20, a good premium to the market. The company cannot afford any further slippage in margins.

Exploration decline hits Oceonics

Increased competition, particularly in the face of a decline in oil exploration activity in the North Sea, hit Oceonics, the survey services group, hard in the first half.

Pre-tax profits for the six months to end-September fell from £1.77m to £222,000.

Turnover dropped from £20.6m to £13.2m, mainly as a result of the absence of a large offshore construction project.

Losses of 0.2p per share compared with earnings of 0.5p.

Northern Investors assets improvement

Northern Investors, the venture capital investment trust, raised net asset value to 308.2p at September 30, against 284.4p a year earlier and 295.6p at March 31.

First-half earnings per share were lower at 2.8p (4p) and the interim dividend is 1.5p (2p).

Placing values Nelson Hurst at £63.3m

By Paul Taylor

Shares in Nelson Hurst, the insurance broker which is coming to market via a placing and intermediaries offer, were priced yesterday at 140p valuing the group, which specialises in professional indemnity in east Asia and Latin America, at £63.3m.

Nelson Hurst was the subject of a management buy-out from Citicorp, its former owner, in May 1991 and the flotation is designed to give the group, which is raising £30.6m through the issue, greater financial flexibility.

Of the 25.2m shares on offer, 17.9m are being placed firm with institutional investors by Charterhouse Bank, which has underwritten the issue. A further 7.37m shares have been placed subject to clawback to meet retail demand through intermediaries.

The group is forecasting operating profits of not less than £7.2m and pre-tax profits of not less than £5.19m for the year to December 31.

On the basis of a notional tax rate of 33 per cent, pro-forma forecast earnings per share for the current year are 10p, and the p/e at the issue price is 14.

■ COMMENT

Based on forecast earnings Nelson Hurst's offer price represents a modest discount to the market and other recent issues. This reflects concern over possible market indigestion rather than any uncertainty about the group's profit potential. Nelson Hurst is an international player with strengths in specialist product areas.

Invasion of low-priced brands hits share of take-home market

Taunton Cider rises to £11m

By Philip Rawstorne

Taunton Cider, reporting an adjusted 11 per cent increase in first half profits to £11m, said yesterday that the take-home cider market had been invaded by an unprecedented number of low-priced brands.

Volume sales of economy products – which were undercutting private label brands – surged 62 per cent in the six months to end-September to account for most of the market growth.

Private label volumes had declined 13 per cent under intense competition from the economy brands supplied by Belgian producers and smaller UK cider makers, said Mr Peter Adams, Taunton's chief executive.

Though Taunton's premium packaged brands, such as Diamond White, Red Rock and Brody, almost matched sector growth of 8 per cent, the reduction in its private label sales left overall volumes slightly lower.

Mr Adams said that the company intended to protect its brands and strengthen its position in the market. Brand promotion would be increased and, in partnership with retail customers, reductions were planned in private label prices. "We believe we can maintain margins by cutting costs," Mr Adams said.

Colin Beere

Peter Adams: private label volumes had declined 13 per cent

Taunton's pre-tax profits grew to £11m, against a reported £8m or an adjusted £9.9m after taking out borrowings of £1.9m which were repaid after flotation in July last year.

Earnings per share, also adjusted for the effect of flotation, grew 13 per cent to 6.9p (6.1p) – last year's actual earnings were 6.3p. The interim dividend is raised 10 per cent to 2.65p (2.4p).

Operating profit was 6 per cent ahead at £10.8m on marginally higher turnover of £65.1m (£65m).

Increased distribution in the pub trade lifted sales of Dry Blackthorn and Autumn Gold, the mainstream draught brands. Draught volumes rose 6 per cent, well ahead of the sector's overall 2 per cent growth, and gained market share. Packaged cider sales through pubs, however, were 1 per cent lower.

Recently launched products, including Frês, a light cider, and Drum perry, showed "encouraging early signs," said Mr Adams.

Discussions had begun with potential partners on developing overseas opportunities and on adding premium beers to the company's drinks portfolio, he added.

Capital spending on extending packaging facilities and technological improvements amounted to £4.4m in the first half. The full year's programme, aimed at reducing costs, is expected to total £10m.

● COMMENT

Taunton has met some concerns by regaining share in the mainstream draught cider market only to find a more serious problem developing in the take-home sector. The growth of tertiary brands may prove more difficult to combat – and scepticism about Taunton's ability to do so without further loss of volume or damage to its margins is reflected in the downgrading of full year profit forecasts from £22m to £20.7m. However, the cider market remains buoyant, though growth is slowing to about 6 per cent; second half sales are ahead; and a prospective p/e of 13 gives few hostages to fortune.

Records broken in City's busiest month

By John Gapper, Banking Editor

A series of trading records were broken in the City last month amid exceptional conditions in equity and gilts markets. The £110.5bn turnover of UK and overseas stocks made it the busiest month ever for equity trading in London.

Equity trading broke the previous record of £109.3bn set in August. A total of £52.6bn was traded in UK equities, the busiest month since July 1987, and it was the second busiest month for overseas equities, with turnover of £57.9bn.

Figures from the Stock Exchange showed that November was also a record month for new issues, with 42 companies joining the market, raising a total of £1.8bn.

This brings the year's total to 158 companies, raising £5.1bn.

There were no new gilt issues during November, but turnover remained strong. The month's turnover was £143.6bn, bringing the year's total to a record £1,438bn.

Twelve of the new companies were Lloyds investment trusts, which raised £758.9m, with an average market capitalisation of £82.9m. A total of 17 companies were capitalised at £50m or less, raising £368.5m between them.

Seven companies were capitalised at over £100m. The largest was Elan Corporation, capitalised at £892.3m, which came via the Unlisted Securities Market.

Ex-Star TV chief may bid for ITV company

By Raymond Snoddy

Mr Julian Mounter, former chief executive of Star TV, the Asian satellite venture, is involved in a consortium looking seriously at acquiring an ITV company.

It is believed that Mr Mounter, a former Thames Television executive who went on to make a success of running Television New Zealand, is providing the television expertise for a weighty consortium.

The members of the consortium have not yet become public, but it is believed that they include a substantial UK company which would like to enter the television market and a company from the European Union.

All the signs are that for the right deal the consortium has already lined up the finances to buy any of the free-standing ITV companies.

Mr Mounter, who is at the moment in Hong Kong, declined to comment yesterday other than to emphasise that the UK television market was just one of the prospects he was looking at.

It is thought unlikely that the consortium plans an early intervention in either of the two takeover deals already under way – Carlton Communication's agreed bid for Central Independent Television or Granada's contested bid for London Weekend Television.

The available targets to such an outside consortium, probably after January 1 when the barriers to takeovers of ITV companies become lower, would include Yorkshire-Tyne Tees, Anglia Television and HTV.

An international outside investor might take the view that the present government proposals to allow one ITV company to hold two franchises, however large (apart from London), are only the first stage in the liberalisation of commercial television. The rules will be debated in the House of Commons today and in the House of Lords next Monday.

Under such an argument it would make sense to acquire an ITV company quite soon, even a middle ranking one, and hope that further expansion is possible at a later date.

The consortium being advised by Mr Mounter, who left Star soon after Mr Rupert Murdoch's News Corporation bought a controlling interest, is also looking at the possibility of bidding for a Channel 5 licence.

Trimmed Charter remains on acquisition trail

By Andrew Bolger

Charter, the industrial group, is still planning to make a substantial acquisition but believes most quoted UK companies are currently looking overvalued.

Mr Jeff Herbert, chief executive, said the group would be more likely to buy a division from a multinational or look to parts of the world where companies were on a lower rating. He wants to add an extra leg to Charter's current portfolio, which supplies equipment to the mining and rail industries, and building products, including quarrying.

Charter is on the acquisition trail after unwinding its links with Anglo American Corporation, the South African mining group. Charter sold its 38 per cent stake in Johnson Matthey, the world's biggest platinum marketing group, for £342m in February. It then then used part of the proceeds to buy out a 36 per cent stake in Charter held by Minorco, Anglo American's Luxembourg-based investment company.

Charter has net cash of £147m, and will receive another £42m in 1996, but Mr Herbert said the money was not burning a hole in his pocket. "We intend to follow the advice of our top shareholders, who have told us 'be thorough, be patient, but get it right'."

Charter's pre-tax profits fell from £37.9m to £31.3m in the six months to September 30, reflecting the Johnson Matthey disposal. However, operating profits of continuing operations rose by 5 per cent to £19.5m on turnover of £288.4m (£262.2m).

Mr Herbert said: "There have been some signs of recovery in our markets, but conditions for our coal and materials businesses remain difficult. Taken as a whole, we expect continued modest improvement from our operating businesses."

Earnings per share fell to 19.6p (23.2p), but the interim dividend is held at 7p.

Charter said it had discovered historic misreporting of contracts in its Cape insulation business in France, which had led to a write-off of £3.9m to reserves and the dismissal of the managers involved. An independent review of contracts throughout Cape had shown it was an isolated incident.

● COMMENT

Profits were a little higher than expected because of an exceptional gain of £2.6m on the disposal of a limestone quarry, but Charter's shares dropped from 731p to 719p as analysts pondered indications that both Pandrol rail fasteners and Andersen mining equipment had an unusually strong first half. The performance of the continuing businesses is respectable, given market conditions, but interest in Charter focuses on its expansion plans. The shares are on a 20 per cent premium to the market, reflecting the uplift in earnings which should follow the investment of cash, and the earnings enhancement caused by the buy-back of Minorco's shares. How the shares perform from here will depend on the execution of the group's long-pondered acquisition plans.

Stagecoach gathers pace with 47% rise to £8.8m

By Charles Batchelor, Transport Correspondent

Stagecoach, the acquisitive bus company that came to market last April, yesterday announced a 47 per cent rise in pre-tax profits to £8.8m in the six months to October 16.

Turnover rose from £68.7m to £80.7m, excluding discontinued operations. However, the latest figure included the contribution of several acquisitions as well as new business generated by introducing modern coaches – shortly to be equipped with lap seat-belts – on some medium-distance routes.

Mr Brian Souter, chairman, said Stagecoach was interested in the prospect of acquiring one or more of the London bus companies when they were privatised and believed the company could make acquisitions without calling on shareholders for additional capital.

Stagecoach, which has 6 per cent of the UK bus market, believed that more modern buses and better services could reverse the decline in bus travel. Some cities in the south-east were introducing transport policies favouring buses which had boosted demand.

The company was also a potential bidder for British Rail franchises though it did not expect the shape of the future rail market to become much clearer before the spring. It would be the end of 1994 before it took a final decision on whether to bid, said Mr Brian Cox, a director.

Earnings per share for the opening half rose to 4.4p (3.3p). The company is paying a 1.5p interim dividend and forecast a final of 2.5p.

Operating profit, excluding new acquisitions, rose 13 per cent to £10.5m reflecting increases in efficiency. It invested £22m in 256 new buses. Interest charges on new buses are far lower than the cost of maintaining old buses which can run to £5,000 to £6,000 a year. When the company's five-year replacement programme is completed the average age of the fleet will have fallen from 10 years to six years.

The group's gearing is currently standing at nearly 140 per cent because of its recent acquisitions. However, it took comfort from the fact that its interest cover was five times earnings, Mr Derek Scott, finance director, said.

Michael Smith on differing reactions to results of two regional electricity companies

Midlands boosts sector with 34% lift

Midlands Electricity yesterday gave the electricity sector a fillip when it announced a 20 per cent increase in the interim dividend and indicated that the full year rise would be about 15 per cent.

The move, accompanied by an announcement that pre-tax profits for the six months to September 30 rose 34 per cent from a restated £66.7m to £89.5m, produced a 22p rise in its shares which ended the day at 675p.

Other shares in the sector rose on the expectation that the remaining regional electricity companies would also announce dividend rises above expectations.

Turnover was higher at £825.5m, compared with £660.7m. The dividend of 7.65p (6.35p) was paid from earnings per share of 30.1p (22.6p).

The company also announced a £10 rebate to quarterly billed customers payable from January 1994. Together with the earlier reduction this would give a price reduction for the full year of 7 per cent for the average domestic customer.

Midlands said total units distributed rose 2.3 per cent, with industrial sales up 1.6 per cent. "The revival in demand has been led by the region's manufacturing sector," said Mr Bryan Townsend, chairman.

Commercial sales rose 1.7 per cent and there was 3.8 per cent growth in domestic sales.

Profits from distribution profits rose by 8 per cent to £66.4m, against £61.2m, and the supply side increased from £9.6m to £17.6m.

The restatement of the accounts stems from a change in coal contracts and is to "enable the supply business cost of sales to be more closely matched with the relevant turnover".

Mr Mike Hughes, chief executive, said he expected a reduction of 400 in the workforce of the core business during the year leaving a total of 5,400 employees at the year end.

In non-core activities, retailing made a loss of £500,000, against profits of £1m last year. The company said this was affected by start-up costs of joining the E&S joint venture with two other regional electricity companies.

"There is no reason why the bigger business cannot make a profit but retailing will probably make a small loss this year," said Mr Hughes.

The generation business incurred a slightly smaller operating loss of £1.2m (£1.4m) as a result of development costs. The company's policy is to write off all costs as they occur when developing businesses abroad.

The company is involved in potential generation projects in Turkey and China where its policy is to be an "informed investor" typically with a 30 per cent stake in a project.

COMMENT

The market was no doubt pleased with Midlands' optimistic comments on the state of the local economy but what really impressed it was its statement that it had achieved a "proper balance" between the interests of shareholders and customers. Midlands may be pressing the accelerator on profits and therefore on dividends but, the market reasons, the rebate should help it to soothe the regulator when he looks at price controls in the distribution review. Another plus for Midlands is that it is has the ability, if it needs to, to claw back a fair chunk of the £33m from customers because of previous under-recovery in tariffs. If the total dividend for the year is 22.95p, and the company suggested yesterday that figure was a reasonable expectation, the prospective yield is 4.3 per cent, about average for the recs. However, the shares may struggle to achieve a higher rating because of concerns over the company's exposure to gas and its overseas ambitions.

Swalec ahead but dividend disappoints City

South Wales Electricity yesterday unveiled an 18 per cent rise in interim pre-tax profits to £44.4m from a restated £37.6m and said it was increasing the dividend from 6.6p to 7.5p.

The 13.6 per cent dividend rise was less than both Eastern Electricity and Midlands, the only other regional electricity companies to report so far this season, and Swalec was the only rec to see its shares fall on the day.

Earnings per share for the half year to September 30 advanced by 19 per cent to 31p (26p).

Swalec increased turnover from continuing businesses from £259.8m to £274.7m. Cost of sales rose to £172m (£163m) and operating costs amounted to £64.1m (£62.4m).

Operating profits in the distribution side grew by 10 per cent to £32.9m.

Electricity distributed was up overall by 1.7 per cent, with domestic usage up 2 per cent and commercial by 0.9 per cent. Industrial customers took 1.5 per cent more with large industrial customers leading the way.

Supply profits at £2.1m were unchanged after last year's figures were restated to reflect seasonal volume patterns.

Celtic, the company's contracting arm, contributed £200,000 to profits against last year's first half losses of £700,000.

Staffing fell by 2 per cent in the half year to 2,534.

Mr David Jones, departing chief executive, said that further small reductions would be likely for the rest of the year.

COMMENT

The City likes cautious utilities, but not, judging by the reaction to its results, when they are as cautious as Swalec. The rec was giving little away yesterday, either in information about the company, or by comparison with other recs, in the dividend. Its shares, down 2p to 699p, are on a yield of about 4.5 per cent if the company pays out 25.4p for the full year. The prospective yield is among the highest of the recs and reflects the concerns about the company's recent expansion in contracting. Swalec may rise in the ratings list when Mr Andrew Walker, formerly of TI and Dowty, gets his feet under the table, and when and if it can demonstrate the telecommunications diversification is a winner. But there is nothing immediately to suggest a re-rating.

3i demonstrates 'robust portfolio' with 10% rise

By Richard Gourlay

3i, the UK's largest investment capital provider, yesterday reported a 10 per cent increase in net assets to 518p per share in the six months to September 30.

Mr Ewen Macpherson, chief executive, said the improvement demonstrated 3i had a "robust underlying portfolio" and provided a "strong indication of the financial performance of the sector in which we operate".

The group is to pay an interim dividend of 4.7p (3.3p) to its shareholders, the UK clearing banks and the Bank of England. The 42 per cent rise brings the interim back in line with recent increases in the final dividend which have not been matched at the interim stage, the group said.

The total return – a combination of dividend revenue less costs and net interest, realised investment profits and the appreciation of the unrealised portfolio – was £151m compared with a fall of £73.8m in the first half of 1992.

Pre-tax revenue rose from £18.8m to £37.8m helped by a swing in the interest line from a net charge of £11.3m to a £2.4m credit.

Two indications of the improved welfare of the smaller companies that 3i serves came from the dividend earned figure and the level of provisions.

Dividend income rose from £44.4m to £51.4m and net provisions fell from £46.9m to £19.2m. Mr Larcombe said the lower provisions level showed "the underlying portfolio is no longer deteriorating."

Within the total return, revenue rose from £16m to £28.2m, partly reflecting the recovery in dividends, but also a reduced interest bill as the flow of new investments slowed. Mr Brian Larcombe, finance director, said the deal flow had begun to pick up again four months ago.

The group made after tax realised investment profits of £30.6m, compared with losses of £16.2m including provisions, in the first half last year. This equated to realisation profit over cost of £62.1m, against £35.8m in the comparable period of 1992.

3i invested £138m in 264 investments in the period, compared with £200m in 414 projects in the first half of last year.

Shareholders' funds were up from £1.19bn to £1.48bn.

Templeton net assets improve

By Philip Coggan, Personal Finance Editor

The buoyant state of world stock markets helped Templeton Emerging Markets Investment Trust increase its net asset value by 38.9 per cent in the six months to end-October.

Emerging markets are developing countries where economic growth is expected to be higher, and the prospect for corporate earnings better, than in the developed world. Templeton runs the largest investment trust in the sector.

Fully diluted net asset value was 343.57p on October 29, compared with 247.3p on April 30 and 214.23p a year earlier. As is the trust's policy, there is no interim dividend.

Mr Mark Mobius, the trust's managing director, said "Emerging markets have shared in the generalised rise in worldwide share prices over the past year with some markets, such as Turkey and Brazil, showing remarkable rises. We continue to find bargains in a wide range of markets."

The current geographical split of the trust's portfolio is as follows (percentages in brackets): Brazil (17.7), Turkey (16.2), Philippines (11.4), Hong Kong (8.5), Indonesia (6), Portugal (5.9), Greece (5.8), Malaysia (5.7), Mexico (5.3), Singapore (4), South Korea (2.7), Argentina (1.2), Chile (1) and others (3.3). The trust also has 5.3 per cent of its assets in cash.

AB Engineering back in black after overseas lift

Associated British Engineering turned in a pre-tax profit of £106,000 for the half year to September 30, against a £46,000 loss last time.

The result was struck after an increase in pension fund contributions to £98,236, against £24,000 last time which reflected a surplus on the fund.

All group businesses showed depressed conditions in the UK, but improved in overseas markets. Diesel power engineering turned round from £99,000 losses to £161,000 profits, but catering equipment losses rose to £223,000 (£49,000). Earnings were 0.02p (0.04p losses).

The company is acquiring from the Leyland Daf receivers certain assets of a business specialising in the rebuilding and reconditioning of diesel engines.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
AG Holdings	fin	2	Jan 14	-	2	-
Allied Colloids	int	1	Feb 18	0.94	-	4.29
Apollo Metals	fin	2.41†	Feb 10	2.3	3.8	3.45
Atkins	int	3.85	Jan 20	3.6	-	7.65
Border TV §	int	1.6	Mar 11	1.3	-	3.3
BSS	int	5.75	Jan 20	5.75	-	17.25
Charter	int	7	Jan 17	7	-	22
Chubb Security	int	2	Feb 18	1.5	-	4.75
Cranswick	int	2.4	Feb 1	2.4	-	8
Creighton's §	int	2.2	Feb 12	2.1	-	7.3
Eldridge Pope §	fin	2.15	Feb 5	1.94	3.55	3.25
Eurocopy	fin	1.2	Apr 6	0.5	1.7	1.6
Evans of Leeds	int	1.58	Jan 7	1.43	-	4.57
Midlands Elec	int	7.65	Mar 23	6.35	-	20
Morris Ashby §	int	2†	Mar 31	1.7	-	5.4
Nrthn Investors	int	1.5	Jan 26	2	-	5.5
Shelton (M) §	int	1.25	Jan 7	0.75	-	2.25
Siebe	int	3.66†	Apr 8	3.3275	-	10
Sims Food	int	2†	Jan 12	3	-	7.5
Smith New Court	int	2†	Feb 19	1	-	5
South Wales Elec	int	7.5	Feb 24	6.6	-	22.3
Stagecoach	int	1.5	Jan 14	-	-	-
Sturge	fin	2	Apr 6	5.5	3	8.25
Tams (John) §	int	1.8	Jan 13	1.59	-	4
Taunton Cider	int	2.65	Feb 17	2.4	-	6
Tunstall	fin	4.5	Jan 31	3.75	7	6
Wellman	int	0.3	Feb 15	0.3	-	0.9

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

London Industrial raises £14m in placing

By David Blackwell

London Industrial, a property company specialising in small working units, yesterday raised £14m through a share placing with institutions.

Mr Harry Platt, managing director, described the company as "a provider of starter homes for small businesses."

The placing through Smith New Court of 5.05m ordinary shares at 320p each, values the company at £29.3m. Of this 4.58m are new shares, with the remainder from existing shareholders. Pro forma net tangible assets after the placing are £28.8m, equivalent to net asset value per share of 315p.

The money raised will be used to finance the purchase of four estates, including one in Stevenage, the first outside the M25, for a total of £8.5m. The remainder will be used on capital expenditure and further expansion.

While gearing will fall from 187 per cent at the end of September to 80 per cent after the placing, the company plans long term gearing of about 100 per cent.

The company was established in 1986 when 12 institutions subscribed £16.7m to acquire 18 estates from the Greater London Council's industrial property portfolio. It has since expanded through acquisitions, joint ventures and extensions.

Before the latest acquisitions, which will be concluded shortly, the portfolio comprised 27 estates with 900 units and 700 tenants. The average unit is 1,000 sq ft, with an average rent of £6.71 per sq ft.

Mr Platt said the occupancy rate of the original 18 estates had been 72 per cent when the company started, and had risen to 95 per cent before the recession. He believed the bottom of the market had been reached in the summer of 1991, when the rate fell to 75 per cent. The company total for its 27 estates is now 77 per cent.

He was confident that the company, which has overhead staffing of 17 people, could almost double the amount of property managed without increasing overheads.

The group made pre-tax profits of £355,000 on rental income of £2.53m in the six months to September 30. In the last full year pre-tax profits were £1.03m on rental income of £4.76m. The board intends to recommend a final dividend of 5p for the year to end March, giving a total of 7p.

Dealings in the shares are expected to begin next Wednesday.

Julian Hodge Bank hits £8.13m

By Roland Adburgham, Wales and West Correspondent

Profits of Julian Hodge Bank, the family-owned Cardiff bank, rose from £6.32m to a record £8.13m pre-tax in the year to October 31.

The figure included a surplus on investment sales of £3.38m (£1.3m).

The bank, which specialises in commercial and industrial lending, is chaired by Mr Julian Hodge, son of Welsh financier Sir Julian Hodge who founded the bank seven years ago.

Mr Hodge said the bank had increased its deposit base by a quarter to £84.7m despite a period of low interest rates. Shareholders' funds had more than doubled since 1988 to stand at £48.4m.

"The current economic outlook is the most promising for a number of years," he said.

Ashley Ashwood

Siebe reveals improvement in North and South America

Allen Yurko, managing director and chief operating officer of Siebe (left) with Barrie Stephens, chairman and chief executive, after reporting interim results for the half year to September 30. As in the final quarter last year the group continued to show an improvement, particularly in North and South America and to a more limited extent in the UK. Continental European and Japanese markets have yet to show significant signs of recovery. The group's second half order book is ahead of the level at the beginning of the year, which Mr Stephens describes as encouraging. He said that with a strong balance sheet and cash flow the group looked forward with confidence to the remainder of the year. He described the 17 per cent pre-tax profit rise to £94.2m as "particularly gratifying" at a time when many markets were in recession. International sales of £827.6m represented 92 per cent of turnover and international profits were 90 per cent of the total.

NEWS DIGEST

Eurocopy rises 54% to £2.62m

Despite a 19 per cent fall in turnover, pre-tax profits at Eurocopy, the office equipment distributor, improved by 54 per cent from £1.71m to £2.62m in the year to end-September.

Mr Cyril Gay, chairman, said the drop in turnover – from £34.2m to £27.6m – resulted from lower machine sales and service revenue, coupled with the absence in the second half of furniture sales after the April disposal of the furniture division.

However, losses in the sales divisions were reduced substantially through a combination of better margins and lower costs, he added.

Earnings per share came out at 3.6p (2.2p) and an improved final dividend of 1.2p (0.6p) raises the total for the year to 1.7p (1.6p).

Apollo Metals falls slightly to £1.03m

Apollo Metals, the aluminium processor and distributor which gained a listing in May, turned in pre-tax profits down from £1.26m to £1.03m in the year to September 30.

The outcome was struck on turnover up by 20 per cent from £23.4m to £28.2m and after an increased interest charge of £391,000 (£159,000).

The directors said the proceeds of the £4.9m placing and open offer were received at the end of June – too late to have a significant impact on interest costs in the second half.

As a result, and despite capital expenditure amounting to £2.1m during the year, the company now had a strong balance sheet and gearing at the year-end stood at just 7 per cent.

A final dividend of 2.4p (2.3p) is proposed making a total for the year of 3.6p (3.45p). The dividend is 1.4 times covered by earnings per share of 5p (6p).

Improved trading for John Tams

Improved trading conditions, particularly in the earthenware sector, enabled John Tams Group to report pre-tax profits for the six months to the end of September ahead by 32 per cent at £501,000, against £379,000.

There were problems at the Royal Grafton bone china operation but the company said the situation had improved since August.

Turnover for this USM company was £11.6m (£9.93m) with exports increasing from 45 per cent to a little more than half of the total. Trading profit was ahead at £614,000 (£606,000), but interest charges were lower at £113,000 (£227,000).

Earnings per share came out at 1.42p (1.25p) and an interim dividend of 1.6p (1.59p) is declared.

Wace placing to raise £6.27m

Wace Group, the pre-press and specialist printing concern, has agreed with de Zoete & Bevan the placing of 3.69m new 20p shares at 170p each, to raise £6.27m before costs.

The directors said the proceeds will be used for the early termination of a number of operating leases on printing equipment; to fund the surrender of an empty leasehold property in New York at a cost of £800,000, and to pay for the group's final earnout obligations, which are estimated at £1.6m and due to be paid next April.

They added that the primary objective during 1994 and 1995 was the continued reduction of borrowings through strong operational cash flow.

Evans of Leeds advances to £4m

Evans of Leeds, the property investment company, raised pre-tax profits by 10 per cent from £3.67m to £4.04m in the six months to September 30.

The company said the result was satisfactory as the market was still difficult, with rental levels rising only slowly and tenants remaining cautious about taking on new commitments.

Total revenue advanced from £10.4m to £12.1m. Earnings per share came to 4.72p (4.28p) and an increased interim dividend of 1.58p (1.48p) is declared. A 1-for-1 scrip issue is also proposed.

Northumbrian Foods achieves turnround

Northumbrian Fine Foods, the USM-quoted food manufacturer, achieved a turnround from pre-tax losses of £1.06m to profits of £104,000 in the half year ended September 30.

The company said the benefits of reorganisation were being seen but continued sales growth and stringent cost controls would be needed in the second half to counter effects of the price war between the retailing multiples and intense competition between manufacturers.

Turnover amounted to £8.1m against £11.1m which included £4.11m from discontinued activities. Earnings per share came through at 0.28p (2.98p losses) and again there is no dividend.

Holmes & Marchant recovers to £1.25m

Holmes & Marchant Group, the marketing services company, reported pre-tax profits of £1.25m for the year to September 30, against losses of £4.78m. The improvement was accentuated by the comparative figure being restated for FRS 3.

Lower exceptional costs of £294,000 (£3.03m) and a lower charge for discontinued activities of £10,000 (£2.96m) were the main factors behind the improvement. Net interest payable fell to £826,000 (£1.08m).

Turnover fell to £32.3m (£33.6m) but operating profit rose to £2.38m (£2.2m). Earnings per share came out at 4.1p (losses 18.9p).

On prospects the company said there was little evidence that recessionary pressures were easing.

Creighton's boosted by acquisitions

Creighton's Naturally, the USM-traded creator of natural health and beauty products, achieved an increase in profits from £617,000 to £819,000 pre-tax for the half year ended September 30.

The near-33 per cent improvement reflected first time contributions from acquisitions made earlier in the year. Associate undertakings contributed £158,000 (nil). Turnover totalled £4.85m (£4.6m).

Earnings emerged at 11.6p (9.1p) and the interim dividend is lifted to 2.2p (2.1p). Creighton's shares closed 10p higher at 212p.

Creston deficit cut to £642,000

In a year of "considerable change" Creston, the construction components group, achieved a reduction in losses from £1.09m to £642,000 pre-tax.

Turnover for the 12 months to end-June amounted to £8.26m (£8.89m) and losses per share worked through at 3.2p (5.7p).

During the period Co-ordinated Land and Estates was acquired for 31m shares and the disposal of 5m shares in Ex-Lands was completed. Since June, Creston's original businesses have been reorganised and it is proposed that the name of the company be changed to Creston Land & Estates.

Mr John Ansdell, formerly finance director of Trafalgar House, has been appointed a non-executive director.

Drummond picks up to £370,000

Technological and operational improvements helped Drummond Group, which makes fabrics and associated products for the clothing industry, increase pre-tax profits from £57,000 to £370,000 for the half year to September 30.

These are the group's first results since the sale of its South African subsidiary and profits included an exceptional £196,000 arising from this disposal. Operating profits on continuing operations were £469,000 (£33,000 losses), on sales of £23m (£21.8m).

Net earnings per share came to 1.17p (1.54p losses), but in the light of the further improvement required, the interim dividend is again omitted.

Exceptional costs put Atkins in red

Exceptional costs left Atkins Group, the Leicestershire-based textile company, in the red for the six months to October 2.

On turnover 15 per cent up at £8.81m (£7.69m) pre-tax losses were £96,000 (£16,000 profits). Losses per share were 2.1p (0.33p earnings) but the interim dividend is raised to 3.85p (3.6p).

The sales improvement noted at the annual meeting continued and operating profits advanced 33 per cent to £138,000 (£104,000).

However the £281,000 cost of ending fabric dyeing, which was less than estimated, less £113,000 surplus on sale of plant resulted in an exceptional charge of £168,000, against profits last time of £48,000.

COMPANY NOTICES

PETITION OF HOWDEN GROUP PLC for CONFIRMATION OF CANCELLATION OF SHARE PREMIUM ACCOUNT

A Petition having been presented to the Court of Session on the 16th June 1993 by Howden Group plc, a Company incorporated under the Companies Acts and having its Registered Office at Old Govan Road, Renfrew for Confirmation of Reduction of Share Premium Account, the Court pronounced the undernoted interlocutor on Friday 3rd December 1993.

Edinburgh, 3rd December 1993 The Lords

Having heard Counsel for the Petitioners, allow the Petition to be amended at the Bar by adding after the words "*Register of Companies*" in the sixth last line of the prayer on page 10, the words "and to dispense with the registration of a *Minute of Reduction* in terms of Section 138(1) of the Companies Act 1985, as being unnecessary". *Further*, having considered the Petition, as amended, together with the Report by Mr J H MacFie, WS, No. 12 of Process, direct that the provisions of sub-sections 3 to 5 inclusive of Section 136 of the Companies Act, 1985 shall not apply as regards the creditors of the Company or any class of them; confirm the reduction of the share premium account resolved on by the Special Resolution of the Company dated 18th March, 1993 and set forth in the Petition; Direct the registration with the Register of Companies of said order; dispense with the registration of a *Minute of Reduction* in terms of Section 138(1) of the Companies Act, 1985, as being unnecessary, direct notice of such registration, when made to be given by advertisement once in the Edinburgh Gazette and once in each of the Herald, Scotsman and in the Financial Times newspapers, and decern.

Sgd. Donald M Ross, IPD.
Maclay Murray & Spens
3 Glenfinlas Street
Edinburgh

LEGAL NOTICES

IN PARLIAMENT
SESSION 1993-94

HILL SAMUEL BANK AND UNITED DOMINIONS TRUST

NOTICE IS HEREBY GIVEN that application is being made to Parliament by TSB Bank plc (hereinafter referred to as "TSB") for leave to introduce in the present Session a Bill under the above name or short title for purposes of which the following is a concise summary:-

1. To make provision for the transfer to and vesting in TSB of parts of the undertakings of Hill Samuel Bank Limited ("Hill Samuel") and United Dominions Trust Limited ("UDT") by means of schemes to be made jointly by TSB and Hill Samuel or TSB and UDT.
2. To make provision relating to trust property transferred to TSB.
3. To provide for the admissibility of books and other documents in evidence for or against TSB and for the application of the Bankers' Books Evidence Act 1879 to certain books of Hill Samuel and UDT transferred to TSB.
4. To make provision for evidence of a transfer by a transfer scheme.
5. To make provision for the application of the intended Act to Scotland and Northern Ireland.
6. To provide for the costs of the intended Act to be paid by TSB.

On and after 3rd December 1993 a copy of the Bill may be inspected and copies obtained at the price of 50p each at the offices of Messrs. W. & J. Burness, W.S. at 16 Hope Street, Charlotte Square, Edinburgh, EH2 4DD; at the offices of Messrs. L'Estrange & Brett at 7 & 9 Chichester Street, Belfast BT1 4JG; and at the offices of the under-mentioned Solicitors and Parliamentary Agents.

Objection to the Bill may be made by depositing a Petition against it. If the Bill originates in the House of Commons, the latest date for depositing such a petition in the Private Bill Office of that House will be 29th January, 1994; if it originates in the House of Lords, the latest date for depositing such a Petition in the offices of the Clerk of the Parliaments in that House will be 7th February, 1994. Further information may be obtained from the Private Bill Office of the House of Commons, the office of the Clerk of the Parliaments, House of Lords or the under-mentioned Parliamentary Agents.

Dated 1st December, 1993

THEODORE GODDARD
150, Aldersgate Street,
London,
EC1A 4EJ
Solicitors

DYSON BELL MARTIN
1, Dean Farrar Street
Westminster,
London,
SW1H 0DY
Parliamentary Agents

CHARTER plc

NOTICE TO HOLDERS OF SHARE WARRANTS TO BEARER

At a meeting of the Board of Directors on 7th December 1993 an interim dividend was declared of 7p per share payable on or after 17th January 1994 to persons presenting coupon No. 1, detached from share warrants to bearer. *Coupons, which must be left for four clear days for examination, may* be lodged any weekday (Saturday excepted) between 10am and 3pm at the Securities Department of Barclays Registrars, 168 Fenchurch Street, London *EC3P 3HP, or at Credit Lyonnais, Centre de Valence, 10/14 Chemin* du Thon, 26000 Valence, France. Listing forms may be obtained on application.

7 Hobart Place
London SW1W 0HH

7th December 1993

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Livestock prices and sterling devaluation blamed for turnround

Sims Food £1.3m in the red

By Peggy Hollinger

High livestock prices together with the devaluation of sterling pushed Sims Food Group, the meat processor and supplier, £1.3m into the red at the pre-tax level during the six months to September 30.

That compared with previous profits of £2.5m.

Sales were 3.2 per cent higher at £148.9m, including £2.2m from acquisitions. Sims, which has seen its shares fall from 182p in June to last night's 102p, cut its dividend by a third to 2p.

Mr John Stone, chairman, said the group's dire predictions about the state of trading had proved "all too accurate".

Livestock prices had increased by between 18 and 30 per cent during the first half, while Sims was only able to raise its prices to retail customers by between 12 and 14 per cent.

However, Mr David Brady, finance director, said the situation had improved substantially since September. A restructuring, for which £6.6m had been provided last year, had been completed resulting in a significant reduction in costs and capital employed in the business.

Sims also intended shortly to sell its stake in TS&W, a meat importing business, to management for a cash payment of about £4m.

The retail division, which had incurred substantial losses in the first six months, had returned to profitability in the second half due to the restructuring.

The strongest performance came from the manufacturing division, which increased organic sales by 21 per cent. Mr Brady said the acquisition of Oakland Fast Foods in July had exceeded expectations and Sims intended to focus its investment in this division in the future.

Losses per share of 3p compared with previous earnings of 5.3p.

The group reported net debt of £21m, leaving borrowings representing roughly 70 per cent of shareholders' funds.

BSS advances 24% to £5.06m

By David Blackwell

BSS Group, the heating, plumbing and process control supplier, lifted pre-tax profits by 24 per cent to £5.06m for the six months to end-September, despite the continuing recession in construction.

Turnover rose from £112.5m to £123.3m. Industrial and commercial sales rose from £74.9m to £78.5m. Mr Alan Milne, finance director, said the group had increased its market share while the overall market had fallen. Operating profit in the division rose from £5.38m to £6.88m.

Sales in the domestic division, now the UK's second biggest distributor to the heating market, increased from £37.6m to £44.8m, reflecting in part the acquisition of Cadel last year. But the division fell into the red to the tune of £567,000, compared with a profit of £172,000.

In July BSS put Cadel and two other recent acquisitions together to create Zenith Plumbpoint. Mr Milne said there were signs of a small upturn in the domestic division's depressed market.

Overall, Mr Milne said the group had seen the bottom of its market, and profits would rise. It would continue to increase market share, improve margins and improve its domestic business.

Interest payable fell from £776,000 to £515,000.

Earnings per share increased from 11.4p to 13.3p, reflecting the increased number of shares in issue after last year's rights. The interim dividend is maintained at 5.75p.

Higher overseas sales help Tunstall rise to £6.47m

By Tim Burt

Improved overseas sales and continued reorganisation helped Tunstall Group, the manufacturer of communication and security systems, increase pre-tax profits from £3.6m to £6.47m in the year to September 30.

The pre-tax figure for 1992 has been recalculated from £5.29m to comply with the FRS 3 accounting standard.

The main impact of FRS 3 was to restate the 1992 figures to take account of a £4.1m loss on discontinued operations and a £1.35m exceptional profit.

Turnover on continuing operations improved from £36.2m to £44.8m, with income from overseas operations up 37 per cent to £10.5m (£7.65m).

Mr Michael Dawson, chairman, said that the performance of Tunstall International, the division handling overseas sales, had "become increasingly important in the development of our business". The group's policy of dividing its operations between eight trading companies enabled it to cut costs and exploit new market opportunities, he added.

Stringent financial controls also bolstered Tunstall's bank balances, up to £6.4m (£2.1m) in spite of substantial capital expenditure.

During the year, the group spent £1.6m on new product development, £2.8m on upgrading its Yorkshire assembly plant and £500,000 on the acquisition of Eses, the Spanish security company.

Further expenditure is also planned on Mion Electronics, a new subsidiary set up last month to take over the design and manufacturing business of Tunstall Electronics.

The group's positive performance, however, was hampered by a sharp decline at Tunstall ComSystem, its German subsidiary. Pre-tax profits fell from £272,000 to £59,000 as recession hit trading.

In a move to improve liquidity among such subsidiaries, the group announced a 1-for-1 scrip issue of new ordinary shares at 5p.

The final dividend is raised to 4.5p (3.75p), making 7p. Earnings per share rose from 21.6p to 26.5p.

Separately, Tunstall said yesterday it was seeking substantial damages over the 1988 acquisition of Tann-Synchronome from Anchor Line.

Mr Dawson said the group spent £265,000 last year on legal costs. The case, alleging faults in Tann-Synchronome's fire security products, is due to be heard in June 1994.

Sturge falls to £1.21m after Lloyd's dispute provisions

By Paul Taylor

An operating loss on insurance activities and a £2.5m provision to cover the potential costs of resolving Lloyd's disputes cut pre-tax profits at Sturge Holdings from £7.75m to £1.21m in the year to September 30.

A sharp decline in insurance fee income and profit commission was offset by a rise in other fees and commissions, and by substantially higher income at Wise Speke, the stockbroking subsidiary, leaving overall turnover flat at £33.4m (£33.2m.)

Fee income fell by 32 per cent to £9.86m reflecting a reduction in the amount of insurance capacity managed by Sturge coupled with lower fee scales. Similarly profit commission (paid by syndicates to the agency) dropped by 29 per cent to £4.18m.

These declines were partly offset by an increase in other fees and commissions to £4.56m (£3.03m) but overall the insurance agencies incurred a £3.44m operating loss on turnover of £18.6m, compared with a £4.07m profit on turnover of £23.5m the previous year.

In contrast Wise Speke reported record operating profits of £2.1m (£300,000) with fees and commissions jumping by 54 per cent to £14.8m (£9.64m.)

Overall, the group reported a £1.32m operating loss compared with a £4.14m operating profit the previous year. Net interest and other income of £2.53m (£3.61m) helped the group edge back into profits at the pre-tax level.

Earnings per share of 1.5p compared with 9.4p a year earlier. The final dividend is cut to 2p (5.5p) making a total for the year of 3p (8.25p).

Mr David Coleridge, chairman, noted that the results represented "a significant fall," but pointed out that the profit was struck after making the further provision to cover Sturge's contribution to the Lloyd's offer to Names.

Commenting on the outlook Mr Coleridge said: "Whilst the profit outlook for the group in the near future remains difficult, the prospects for Wise Speke are good and the portents for the insurance agencies are more favourable".

Wellman incurs loss of £527,000

Wellman, the specialist engineer, swung from profits of £321,000 to losses of £527,000 pre-tax for the six months to the end of September.

The deficit took account of an exceptional provision of £253,000, being directors' compensation for loss of office.

A 26 per cent decline in turnover to £9.87m resulted from the timing of contract deliveries at the furnace and process engineering companies.

The directors said second half sales would be higher as large contracts fell due for delivery. Margins, however, would be lower. The order book at £17.5m was £6.5m higher than a year earlier.

Losses per share emerged at 1.8p, compared with earnings of 0.5p. As an indication of confidence in future profitability the interim dividend is held at 0.3p.

Confidence on future as Eldridge Pope doubles

By Graham Deller

Shares of Eldridge Pope rose 9p to 134p yesterday after the USM-traded retailer, brewer and wine shipper announced near-doubled annual profits.

In an upbeat statement, Mr Christopher Pope, chairman, said: "A fundamental restructuring is now being achieved ... there are now considerably brighter prospects for the company."

The full benefits of the trading alliance with Carlsberg-Tetley will be felt from the spring of next year, he said.

Although turnover dipped to £42.7m (£43.1m) in the 12 months to September 30 – reflecting the disposal of the beer wholesaling business to Carlsburg-Tetley in July – an 11 per cent upturn in operating profits, coupled with sharply reduced interest charges, left the pre-tax line 96 per cent higher at £1.76m (£901,000 restated for FRS 3).

The outcome took in a net surplus of £252,000 on the restructuring, comprising a profit on sale of goodwill of £4m less a series of write-offs and provisions.

The company is also writing down the balance sheet carrying value of its main site in Dorchester by £2.6m, reducing total net assets to £57.6m, against £59.1m. Borrowings fell from £17m to £8.85m, leaving gearing at 15.4 per cent.

After a tax credit of £51,000 (£136,000), resulting from losses and reliefs in previous years – set to continue for another two years at least, Mr Pope said – earnings per share improved from 5p to 8.6p.

A proposed final dividend of 2.15p brings the total for the year to 3.55p (3.25p). Mr Pope reiterated that "restoring the dividend to its former level and beyond is a top priority".

NEWS DIGEST

Morris Ashby rises to £839,000

On turnover up 42 per cent from £8.13m to £11.6m in the six months to September 30, Morris Ashby, the USM-quoted diecasting and machining group, reported pre-tax profits of £839,000, an increase of 31 per cent on the previous £639,000.

Mr Norman Gardner, chairman, said: "Overall, only one of our top 20 customers placed less business with us."

He added that the long term future looked healthy with a strong forward order book, but some customers were showing less confidence than had been expected.

Earnings per share were 6.3p (5.6p) and the interim dividend is raised to 2p (1.7p).

Baring Tribune debenture placing

Baring Tribune Investment Trust is placing a further £10m nominal of 9.125 per cent debenture stock 2012.

The stock will be placed on a yield basis, and will form a single series with the £15m of the stock currently outstanding.

Drew Scientific falls into £0.84m loss

As foreshadowed in October and reflecting reliability problems with a specific bought-in component, Drew Scientific Group, the analytical instrument designer and manufacturer, suffered pre-tax losses of £842,000 for the half year to September 30, compared with £151,000 profits.

The loss includes £248,000 attributable to continuing research and development expenditure and £94,000 associated with relocation of activities and rectification of instruments.

Turnover dropped from £1.75m to £420,000. Losses per share were 3.44p and there is again no dividend.

All-round upturn at Martin Shelton

An upturn in business across the product range enabled Martin Shelton, the USM-quoted diaries, calendars, gifts and betting office equipment supplier, to swing from losses of £144,000 to profits of £90,000 pre-tax for the half year ended September 30.

The shares responded via a 12p rise to 80p.

Sales improved from £1.68m to £2.1m. Earnings worked through at 1.18p (losses 1.86p) and the interim dividend is lifted to 1.25p (0.75p).

AG Holdings beats forecast with £2.91m

In its first results since coming to the market in June, AG Holdings, which makes rope and cable reels, beat its prospectus forecast of £2.7m with a pre-tax profit of £2.91m for the 12 months to July 31.

Turnover of £15.8m compared with £10.7m at March 31.

Earnings per share came out at 11.4p and there is a special dividend of 2p as forecast in the listing.

Border TV improves to £802,000

Border TV, the USM-quoted ITV licensee for the Border region, lifted pre-tax profits from £519,000 to £802,000 for the six months to October 31. The shares closed 12p higher at 150p.

The result was on reduced turnover of £4.85m (£5.9m) but the company said that comparisons were not meaningful as it no longer sold airtime for Channel 4.

Earnings per share nearly doubled to 6.7p (3.4p) and the interim dividend is raised to 1.6p (1.3p).

Lister deficit cut to £268,000

Reduced pre-tax losses of £268,000 were announced by Lister for the six months to September 25. Losses last time for the textile products maker which also has interests in property, engineering and insurance broking, amounted to £1.62m.

Turnover rose from £16.5m to £17.6m with textiles accounting for £16.4m (£15.5m). Operating losses were £57,000 (£509,000) with only the insurance activities showing a profit.

Losses per share were cut to 1.85p (9.97p).

Cranswick declines to £745,000

Cranswick, the integrated supplier of grain, feed, livestock and meat products, reported a fall in profits from £968,000 to £745,000 pre-tax in the half year to September 25.

Mr Jim Bloom, chairman, said that assuming pig prices had stabilised, the board anticipated a more satisfactory result in the second half.

Turnover improved to £54.2m (£49.6m). The maintained interim dividend of 2.4p is payable from earnings of 3.8p (6p) per share.

COMMODITIES AND AGRICULTURE

Aluminium leads further rise in metal markets

By Richard Mooney

London Metal Exchange base metals prices yesterday built on their recent rally, with aluminium, which had been lagging the field somewhat, taking its turn in the lead.

Having shrugged off news of a further 3,900-tonne rise in LME warehouse stocks to a fresh record of 2,395,450 tonnes, the three months delivery aluminium price managed to break down the technical resistance around $1,090 a tonne at which its rise had stalled on Tuesday before moving on to a peak of $1,116 a tonne. The advance was trimmed in late trading, however. The price closed at $1,108.75 a tonne, still $20.50 upon the day, and a further $2.25 was surrendered in after hours dealings.

Dealers said the performance was particularly encouraging to the bulls as by holding above $1,090 the market had indicated that further gains were possible, while removing the immediate threat of a significant downward reaction.

The three months aluminium price has now recovered by $70 from the eight-year low reached at the beginning of November.

Other notable performances yesterday included three months nickel's $90 net rise to $5,037.50 a tonne – though that was $82.50 below the 4½-month high reached early in the day.

Lead's recent surge also continued in the morning, with the three months delivery price touching a 1993 high of $475 a tonne at one point. The price was trimmed back by the close to $461.50 a tonne, up $4.25 on the day, but that still extended its upward run over the past eight trading days to an impressive 10.7 per cent.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+3,900	to 2,395,450
Aluminium alloy	–140	to 49,080
Copper	+1,925	to 592,425
Lead	–875	to 298,075
Nickel	+980	to 119,904
Zinc	+6,050	to 870,575
Tin	+130	to 19,125

The zinc market was in an equally buoyant mood as traders looked forward to Friday's meeting of European producers to discuss proposals for co-ordinated output cuts.

An early breach of chart-based resistance around $976 a tonne for three months metal primed the market for an assault on the psychological $1,000-a-tonne barrier. That hurdle was cleared with some ease and the price sped on to $1,010 a tonne. But the advance quickly ran out of steam in that rarefied atmosphere and by the close the three months position was back to $998.25 a tonne, up $24.75 on the day.

Three months copper extended its five-day, $44 upward run with an early jump to $1,714 a tonne before running into expected stiff resistance. It recoiled to $1,700.75 a tonne at the close and at the end of after hours trading was back to $1,699.50 a tonne, up $5.75 on the day.

"There is a general round of euphoria in the [base metals] market," commented GNI, the London trade house, in its daily commodity report, "and a degree of 'call option' mentality."

It explained that a speculator believing that prices had already seen the bottom could buy a metal and place a stop-loss selling order below its recent low, creating what it described as "a synthetic call option – i.e. the risk is limited and the potential upwards huge".

"This mentality has been cultivated by the low 3.5 per cent US dollar based interest rates available at the moment," GNI said. "For example, to fund a nickel position with a stop below $4,000 [a tonne] will accrue just $35 a tonne in funding costs for a year, low for a market where historically prices have shot up to $20,000 in the not so distant past."

● Russia, blamed by western producing nations for the glut of aluminium on the world market, does not plan to cut its production if other producers do not lower their own output, deputy prime minister Alexander Shokhin declared yesterday, reports Reuter from Moscow. He also told a news conference that recent quotas imposed by the European Union on Russian aluminium exports had had no effect because producers were finding ways to avoid them.

"Russian exporters find other ways to go round these quotas," he said. "So far, our aluminium industry has not felt any negative consequences of the EC [EU] quotas."

A flood of Russian aluminium has undermined Western markets since the Soviet Union's collapse. Russia's non-CIS primary aluminium exports rose to 1.11m tonnes in the January-October period from 735,000 in the corresponding period of 1992, official statistics show.

Mr Shokhin said there was no agreement at last week's talks in Washington, where industry officials from Russia, the US, Canada, Australia, Norway and the EU discussed the worldwide oversupply of aluminium. The next round of multilateral talks is scheduled for January 18-19 in Brussels.

Mr Shokhin said Russia was against any sharp production cuts that would hurt its producers. "There are limits to a compromise," he said.

"We are not going to restrict output to the extent that our enterprises have to close down. We're ready to cut production, but we have our own criteria for such cuts. Russia is not going to cut output on its own."

He said further talks were needed with the EU and the US to find a solution to the problem.

"A lot will depend on whether the EC and the United States manage to agree between themselves first," he said.

Washington trade officials fear that increasing flows of Russian aluminium will flood the US market after the introduction of EU restrictions.

The EU curbs, announced early last week, extend for another three months quotas initiated in August on imports of unwrought aluminium from the former Soviet Union.

Pakistani scientists in search for weather-proof cotton varieties

By Farhan Bokhari in Faisalabad

Pakistan's cotton scientists are exploring ways to develop new crop varieties that will be tolerant of changing weather conditions, after this year's heavy crop damage.

The government estimates that up to 15 per cent of the expected 12m bales has been lost because of the recent attack of the leaf curl virus. But some scientists suspect that higher temperatures, especially during night time, may have exacerbated the drop in production.

Mr Waheed Sultan Khan, director of the government's cotton research institute in Faisalabad, said yesterday: "Cotton is a very sensitive crop. We have seen this year that night temperature was 3°C higher as compared to previous years. The night temperature has a great impact on cotton production". Such environmental changes required that new crop varieties be developed, Mr Khan said.

Concern over environmental degradation causing crop damage is the latest addition to a lengthening list of worries for the cotton industry. Some officials and experts still fear that the fall-out from the Gulf War is continuing to affect the atmosphere. However, few efforts have been made to establish a scientific link. Some experts also believe that higher temperatures have been caused by large scale deforestation in recent years.

Meanwhile, many cotton farmers among the worst affected in villages outside Faisalabad, were yesterday busy sowing other crops to recover some of their losses from cotton. Some have already ploughed their cotton fields without harvesting any crop, because the lint it contained would have earned them less money than they would have had to lay out in picking costs.

"I will never sow cotton again," said Chaudhary Bashir Ahmed, who farms land about 32km from the city. He has recently ploughed in what remained of his 21-acre crop following the virus attack.

Weak currency helps Australian miners

A combination of a weaker Australian dollar, lower company tax and a small rise in exports boosted profits for the Australian mining industry in 1992-93 (to June 30), according to an industry survey, reports Reuter from Canberra.

The Australian Mining Industry Council said net profits of the 120 companies that responded to its survey rose to A$2.31bn (£1.03bn) in 1992-93 from A$1.79bn in 1991-92.

"But despite this the rate of return on shareholders' funds was well below the average for the past decade and the prospects for future growth are dulled by continuing depressed world mineral prices," Amic said. It noted that the industry's aggregate net profit was still below the A$2.55bn earned in 1990-91.

The survey showed that while the industry's operating revenue rose by 3 per cent, its operating profit before income tax rose by 7 per cent and net profit by 29 per cent, boosted by a 21 per cent fall in income tax.

The substantial fall in income tax reflected cuts in the corporate tax rate, losses carried over and adjustments to earlier provisions, it said. Unit costs also declined.

Overall, mine production rose by 2 per cent after a 1 per cent fall in the previous year, the survey showed.

Smelting and refining production rose only 4 per cent and the generally low growth in industry output in the past three years contrasted with the strong growth recorded in the 1980s, Amic said.

The weaker Australian dollar helped to offset lower world prices, resulting in a 3.6 per cent increase in average prices of Australia's mineral exports for the year.

Amic said investment fell by 23 per cent in 1992-93 but added that some improvement in investment was expected next year, with net expenditure on fixed assets likely to increase by some 39 per cent.

Uncertainty over the government's native title bill continued to cloud the outlook for the industry, Amic said, with exploration expenditure expected to rise by only 4 per cent in 1993-94.

Members to discuss coffee pact's future

Members of the executive board of the International Coffee Organisation begin a three-day meeting in London today at which they will discuss the organisation's future role, delegates said, reports Reuter.

"There will be plenty of time to look at the issue of what we want to do with the ICO. . . but I doubt it will be time enough to take a decision," one producer said.

Members have theoretically until the end of September next year to decide on the organisation's role after the collapse of difficult negotiations on a new economic pact in March.

Delegates agreed to extend the existing administrative accord by a further 12 months to October 1, 1994, but were then shocked in September by an announcement from the US, the biggest consumer, that it would not accede to the extension.

Its decision has been linked with a scheme devised by producers to hold back some supplies from the world market. This came into effect from October 1.

'Significant' fall in Russian gold output predicted

By Kenneth Gooding, Mining Correspondent

Russia's gold production is set to fall steeply next year, according to some analysts. The drop could be as much as 30 per cent, suggests Mr Andy Smith, analyst at Union Bank of Switzerland.

Ms Natalia Zubareva, representative to Russia and the Commonwealth of Independent States for the RTZ Corporation, the world's biggest mining company, thinks that Russia's gold output will remain steady at about 130 tonnes this year but see a "significant" fall in 1994.

Mr Smith cites three main reason for the expected fall: shortages of resources; the black market; and obstacles to foreign investment.

More than half Russian gold production comes from two areas, Magadan and the Sakha republic, but by the end of August Sakha had received only 30 per cent of its food and only half of its fuel from Moscow. The republic has publicly warned that it may have to sell its gold and diamond output outside the centrally-controlled organisations to meet its needs.

Mr Smith says interior ministry data shows that about 30 per cent of Magadan's 40 tonnes of gold output last year was sold on the black market.

Other factors depressing output are a steep fall in production of mining equipment and a quadrupling of electricity prices in the far east of the country. Only 46 per cent of the minimum funds required were allocated to the region for geological purposes in the second half of this year.

In a recent speech to the Western Gold Show in San Francisco, Ms Zubareva also stressed that ties between mines and equipment suppliers in different parts of the former Soviet Union were breaking down, that the mineral resource base was deteriorating and delays in state payments to producers were causing great difficulty to the CIS gold industry. She said that in recent years investment in gold mining had fallen but it had now reached the stage where there was no investment at all.

● China is the world's sixth biggest gold producer, Mr Cui Dewen, vice-president of the Metallurgical Industry Ministry's gold administration, told Xinhua news agency, reports Reuter from Beijing.

During the past 14 years, production had increased at an average rate of more than 10 per cent, he said, but gave no details.

He claimed more than 20 companies from a dozen countries and regions, including the US, Canada, Australia and South Africa, had shown interest in investing in China's gold mines. China would have an "active attitude" towards Sino-foreign co-operation in gold production, Mr Cui said, with the departments concerned drawing up detailed policies.

"Readjustment of the gold price [in September] stimulated China's gold production," he said. "Some original gold markets have appeared around gold mines and more efforts must be made to standardise these."

On September 1 the People's Bank, the sole legal buyer, raised the state purchase price to 10 per cent below the international price, converting at the exchange rate on national swap markets.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1088-89	1108.5-09
Previous	1067-68	1088-88.5
High/low		1116/1091
AM Official	1079-80	1099.5-100
Kerb close		1105-07
Open int.	273,873	
Total daily turnover	58,136	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	953-58	976-77
Previous	934-38	956-60
High/low		980/978
AM Official	950-52	975-77
Kerb close		976-78
Open int.	2,620	
Total daily turnover	498	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	447.5-48.5	461-62
Previous	443.5-44	457-57.5
High/low		475/458.5
AM Official	454.5-55.5	468.5-69
Kerb close		467-68
Open int.	26,888	
Total daily turnover	8,048	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4975-85	5035-40
Previous	4723-28	4780-81
High/low	5050	5120/4985
AM Official	5046-52	5110-15
Kerb close		5030-35
Open int.	48,684	
Total daily turnover	13,278	

■ TIN ($ per tonne)

	Cash	3 mths
Close	4785-90	4835-40
Previous	4730-35	4785-90
High/low		4865/4785
AM Official	4788-93	4840-45
Kerb close		4845-50
Open int.	16,290	
Total daily turnover	3,926	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	980-81	998-98.5
Previous	954.5-55.5	973-74
High/low		1010/978
AM Official	985-86	1004-4.5
Kerb close		998-99
Open int.	84,032	
Total daily turnover	29,391	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1678-79	1700.5-01
Previous	1671.5-72.5	1695-96
High/low		1714/1689
AM Official	1685.5-87	1706-06.5
Kerb close		1699-700
Open int.	211,961	
Total daily turnover	92,119	

■ LME AM Official £/$ rate: 1.5010
LME Closing £/$ rate: 1.4943
Spot:1.4920 3 mths:1.4855 6 mths:1.4798 9 mths:1.4772

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	76.75	+0.05	77.05	76.70	[illegible]	[illegible]
Jan	77.00	+0.15	77.05	76.90	[illegible]	[illegible]
Feb	77.25	+0.10	77.30	77.00	[illegible]	[illegible]
Mar	77.55	+0.10	78.25	77.40	[illegible]	[illegible]
Apr	77.75	+0.10	78.20	78.20	[illegible]	[illegible]
May	77.90	+0.10	78.50	77.75	[illegible]	[illegible]
Total					[illegible]	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	376.10-376.50	
Opening	375.20-375.60	
Morning fix	374.35	249.484
Afternoon fix	376.90	252.158
Day's High	377.20-378.00	
Day's Low	374.10-374.50	
Previous close	376.40-376.80	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.65	6 months	2.89
2 months	2.65	12 months	2.74
3 months	2.66		

Silver Fix	p/troy oz.	US cts equiv.
Spot	322.10	483.50
3 months	325.95	486.90
6 months	329.70	490.85
1 year	337.05	499.65

Gold Coins	$ price	£ equiv.
Krugerrand	378-379	250-253
Maple Leaf	387.15-389.60	
New Sovereign	86-89	57-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	377.4	+1.5	377.8	375.4	1,917	1,058
Jan	378.3	+1.5	-	-	17	12
Feb	379.3	+1.5	[illegible]	[illegible]	[illegible]	[illegible]
Apr	381.1	+1.5	[illegible]	[illegible]	[illegible]	[illegible]
Jun	382.9	+1.5	[illegible]	[illegible]	[illegible]	[illegible]
Aug	384.8	+1.5	[illegible]	[illegible]	[illegible]	[illegible]
Total					144,392	49,473

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	377.7	+0.6	[illegible]	[illegible]	[illegible]	[illegible]
Jan	378.4	+0.6	[illegible]	[illegible]	[illegible]	[illegible]
Apr	380.1	+0.6	[illegible]	[illegible]	[illegible]	[illegible]
Jul	381.1	+0.6	[illegible]	[illegible]	[illegible]	[illegible]
Oct	382.4	+0.6	[illegible]	[illegible]	[illegible]	[illegible]
Jan	382.7	+0.6	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	127.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	127.80	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	126.30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	126.05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	125.05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					103,186	23,203

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int.	Vol.
Jan	14.92	+0.36	15.01	14.51	[illegible]	[illegible]
Feb	15.30	+0.34	15.30	14.84	[illegible]	[illegible]
Mar	15.45	+0.30	15.59	15.12	[illegible]	[illegible]
Apr	15.70	+0.30	15.77	15.48	[illegible]	[illegible]
May	15.86	+0.25	15.95	15.57	[illegible]	[illegible]
Jun	16.12	+0.29	16.28	15.90	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int.	Vol.
Jan	13.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	13.99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	14.26	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	14.47	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	14.64	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	14.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int.	Vol.
Jan	45.12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	45.91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	46.22	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	45.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	45.62	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	45.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	144.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	144.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	144.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	145.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	144.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	144.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Open int.	Vol.
Jan	2.055	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	1.890	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	1.825	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	1.925	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	1.930	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	1.930	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int.	Vol.
Jan	0.4110	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	0.4270	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	0.4400	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	0.4735	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	0.4830	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	0.4875	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jan	103.75	+0.50	103.75	103.50	1,301	178
Mar	102.05	+0.60	102.10	102.00	1,985	140
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jan	105.15	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	106.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	107.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	92.05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	95.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	27.16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	27.14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	27.11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	26.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	26.56	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	26.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	208.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	204.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	204.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	203.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	203.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	203.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Nov	118.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	88.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	108.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	130.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	88.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	1250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	1258	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	1270	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	1265	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	1158	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	1267	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

	Close	Prev
BFI	1249	1251

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	976	-5	992	961	390	90
Mar	1042	-6	1065	1039	46,969	4,611
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	1266	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	1281	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	1302	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	1327	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	1344	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	1365	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Dec 6 Daily	1035.27	1047.65
Dec 7 10 day average	1030.77	1017.89

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jan	1246	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	1234	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	1218	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	1212	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	1208	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	74.70	+0.75	74.95	73.70	[illegible]	[illegible]
Mar	76.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	78.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	79.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	80.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	82.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

	Price	Prev. day
Dec 6 Comp. daily	71.91	70.87
15 day average	70.57	70.47

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jan	10.83	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	11.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	11.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	11.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int.	Vol.
Mar	283.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	284.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	280.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	277.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	274.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	276.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Mar	10.88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	10.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	10.80	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	10.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	10.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	10.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	63.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	64.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	65.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	66.17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	64.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	64.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jan	102.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	105.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	107.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	110.15	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	112.15	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	110.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

Minor Metals
European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 1,600-1,650. Bismuth: min. 99.99%, tonne lots 2.30-2.50. Cadmium: min. 99.5%, 0.35-0.40. Cobalt: MB free market, 99.8%, 11.00-11.45 (10.95-11.40); 99.3%, 10.10-10.55. Mercury: min. 99.99%, $ per 76 lb flask, 85-100. Molybdenum: drummed molybdic oxide, 2.65-2.75. Selenium: min 99.5%, 4.25-4.90. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 27-32. Vanadium: min. 98%, cif, 1.35-1.45. Uranium: Nuexco exchange value, 9.90.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 7	Dec 6	month ago	year ago
1840.9	1835.7	1613.6	1682.7

■ CRB (Base: 4/9/56=100)

Dec 6	Dec 3	month ago	year ago
220.58	221.77		202.78

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	71.125	-.325	71.050	71.035	10,951	5,710
Feb	72.650	-.400	73.175	72.525	[illegible]	7,266
Apr	74.325	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	72.900	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	71.525	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	71.500	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Dec	44.425	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	46.625	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	47.025	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	52.500	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	52.325	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	50.600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int.	Vol.
Feb	52.050	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	52.525	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	53.450	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	54.050	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	52.600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne	Calls Jan	Calls Apr	Puts Jan	Puts Apr
■ ALUMINIUM (99.7%) LME				
1050	58	81	4	15
1075	36	63	10	20
1100	19	48	20	30
■ COPPER (Grade A) LME				
1600	90	121	1	12
1650	48	84	10	24
1700	19	54	32	44
■ COFFEE LCE				
1150	93	87	7	8
1200	51	63	25	78
1250	21	46	80	111
■ COCOA LCE	Mar	May	Mar	May
950	111	126	19	30
1000	80	94	38	48
1050	58	69	66	73
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1400	21	62	35	68
1450	4	37	60	77
1500	1	22		

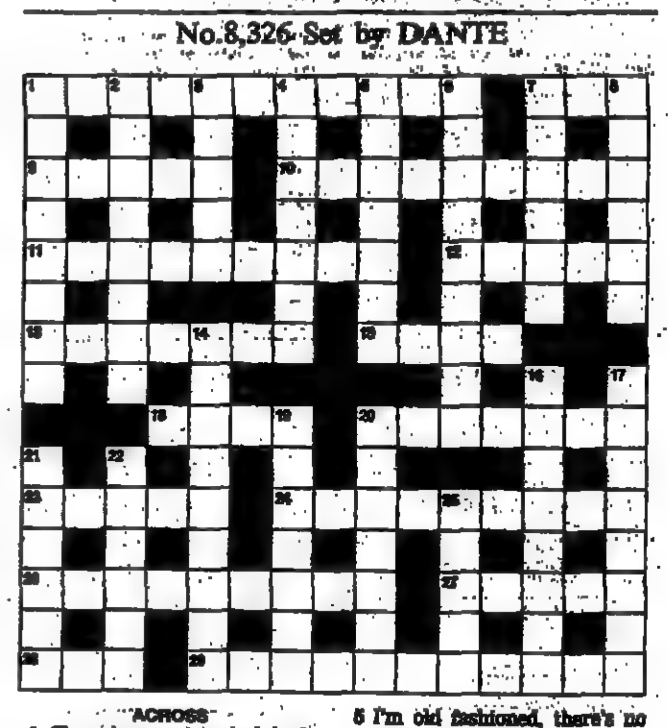
LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)		+or-
Dubai	$12.26-2.36	+0.17
Brent Blend (dated)	$13.86-3.88	+0.09
Brent Blend (Jan)	$13.87-3.89	+0.10
W.T.I. (1pm est)	$14.92-4.94	+0.28
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$143-145	-2
Gas Oil	$130-132	-1
Heavy Fuel Oil	$54-56	
Naphtha	$132-135	-1
Jet fuel	$165-168	-3
Petroleum Argus Estimates		
■ OTHER		
Gold (per troy oz)♣	$376.30	-0.3
Silver (per troy oz)♣	485.5c	+3
Platinum (per troy oz.)	$370.90	+2.65
Palladium (per troy oz.)	$124.80	+0.85
Copper (US prod.)	82.0c	
Lead (US prod.)	32.75c	
Tin (Kuala Lumpur)	11.89r	-0.02
Tin (New York)	220.5c	+0.5
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	121.59p	+1.93*
Sheep (live weight)†♦	89.92p	-1.27*
Pigs (live weight)†	72.34p	+1.44*
Lon. day sugar (raw)	$270.20	-2.60
Lon. day sugar (wte)	$277.00	-2
Tate & Lyle export	£291.50	-3
Barley (Eng. feed)	£108.75y	+0.25
Maize (US No3 Yellow)	£129.0	
Wheat (US Dark North)	£176.0z	
Rubber (Jan)♥	60.75p	
Rubber (Feb)♥	61.00p	
Rubber (KL RSS No1 Jul)	205.0m	
Coconut Oil (Phil)§	$567.5x	+27.5
Palm Oil (Malay.)§	$397.5y	+10
Copra (Phil)§	$382.5	+20
Soyabeans (US)	£188.0	
Cotton Outlook 'A' index	57.70c	+0.05
Wooltops (64s Super)	339p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Dec/Jan. z Jan. x Dec/Jan. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. † Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,326 Set by DANTE



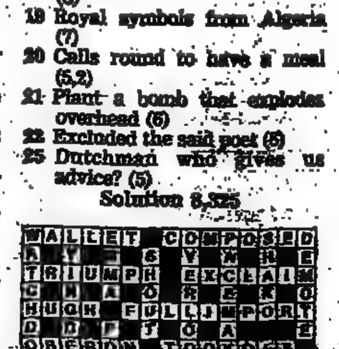
ACROSS

1 Changing one's mind looks bad during the holidays (11)
7 One the military police see as mischief-maker (3)
9 Some vestige of sanctity? (5)
10 He won't take steps to maintain silence! (3-6)
11 War is seen to produce fatigue (9)
12 Time called in bar (5)
13 Sounds more like work for the tenants (7)
15 Land set back by a lake (4)
18 A better mark (4)
20 Great at organising water sports (7)
23 A left arm which may be raised (5)
24 One taking part in the arms race? (3-6)
26 They form strong attachments to a craft (9)
27 They are used for cheating and lying (5)
28 This hat is out of date (3)
29 Does it teach you to handle a knife carefully? (5,6)

DOWN

1 All right for light and water (4,4)
2 Pass, momentarily fail, then break down totally (5)
3 In some muesli Chinese fruit is included (5)
4 She plays with the electricity switch (7)
5 I'm old fashioned, there's no getting away from it (7)
6 The object wasn't far from causing an accident (4,5)
7 Pay in advance (6)
8 It finishes a sentence or any allotted time (6)
14 Snaps come out and go round (9)
16 Enlist us for employment in the kitchen (8)
17 Soldiers roar and sing wildly (8)
19 Royal symbols from Algeria (7)
21 Plant a bomb that explodes overhead (6)
22 Excluded the said poet (6)
25 Dutchman who gives us advice? (5)

Solution 8,325



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Record levels maintained after strong recovery

By Terry Byland, UK Stock Market Editor

Profit-takers were successfully resisted on the UK stock market yesterday in a more active trading session. Marked selling pressure early in the day took the FT-SE 100 Index down nearly 18 points, but traders were caught out by the strength of a rally which left the index unchanged at the peak of 3,237.3 reached on Monday. The rally across the wider range of stocks took the FT-SE Mid 250 Index up 2.2 to a new high of 3,568.

No new factors appeared to influence the stock market; sterling and UK bonds eased slightly, although both closed in London above the day's lows. But confidence that UK base rates will be reduced in the new year remained undimmed.

The late rally, which took the Footsie briefly into positive territory, was complicated by a clash in the derivatives markets, where a US securities house unravelled an off-market package written for a single client. The resulting turmoil in equities caused some confusion among the blue chips and boosted the day's Seaq volume total to 686.4m shares from the previous session's 601.9m. On Monday, retail volume was worth £1.2bn.

Stock Exchange statistics confirmed that November was a very successful trading month for the London-based securities firms. UK equities worth £52.6bn were traded in what now proves to have been the busiest month since July 1987, just before the market crash of October that year.

The stock market stood up well yesterday to a shrinking of the premium on the December contract on the Footsie. The futures premium has been a significant driving factor behind equities since just before Budget Day. Traders were not disturbed by yesterday's reduction in the premium, which is normal as the contract approaches expiry.

Another cut in mortgage rates by a leading home lending group kept interest rate optimists on the alert.

Bank stocks, which have benefited very strongly from the view that rate cuts will work wonders for their unperforming loans, attracted renewed buying in the second half of the session. Store shares, however, shed a few pence in what was little more than a profit-taking pause. Sector analysts are now looking for signs of the consumer spending pattern in the months leading up to Christmas.

Most share sectors moved narrowly around overnight levels, with the electricity utilities outstanding following dividend statements. But profit-taking among the consumer stocks, which have advanced strongly since the Budget offered relief from fears of adverse tax moves, brought widespread falls. Publishing shares, which have outperformed over the past week, also came in for profit-taking pressure.

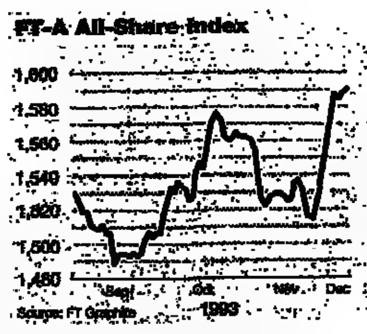
Equity strategists continued to express satisfaction with the outlook for UK stocks, although some turned their attention overseas. Strength overnight in the Hong Kong market helped some London shares, but there were further worries over Tokyo. London-based securities firms take differing views on the Japanese market. Some still see weakness there as a potential threat to global investors.

However, NatWest Markets has upgraded its weighting recommendation on Japanese equities from underweight to neutral, arguing that prospects of cuts in both income tax and the discount rate should raise recovery hopes. Goldman Sachs takes a similar line, although cautious on "uncertainty about economic recovery".

Account Dealing Dates		
*First Dealings:		
Nov 29	Dec 13	[illegible]
Option Declarations:		
Dec 9	Dec 30	Jan 13
Last Dealings:		
Dec 10	Dec 31	Jan 14
Account Day:		
Dec 20	Jan 10	Jan 24

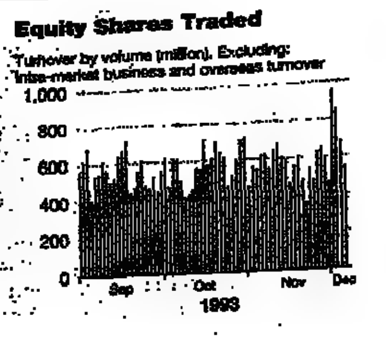
*New time dealings may take place from two business days earlier.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT SE 100	3237.3	(nc)	FT Ordinary index	2429.8	-8.6
FT-SE Mid 250	3568.0	+2.2	FT-A 500 p/e	20.43	(20.47)
FT-SE-A 350	1610.5	+0.1	FT-SE 100 Fut Dec	3246.5	-5.0
FT-A All-Share	1591.07	+0.14	10 yr Gilt yield	6.43	(6.54)
FT-A All-Share yield	3.59	(3.59)	Yield ratio:	1.93	(1.93)

Best performing sectors

1 Electricity .... +1.7
2 Water .... +1.6
3 Other Industrials .... +1.3
4 Banks .... +1.3
5 Metals & Metal Forming .... +1.3

Worst performing sectors

1 Health & Household .... -1.4
2 Engineering (Aero) .... -1.4
3 Business Services .... -1.3
4 Food Retailing .... -1.3
5 Engineering-General .... -0.9

Dividend increases lift Recs

A bumper interim dividend from Midlands Electricity saw the company's shares outpace the rest of a regional electricity sector – itself the best performing area of the market yesterday – which has attracted heavy buying interest since the November 30 Budget.

Midlands' 20.5 per cent dividend increase saw the company nudge its way to the forefront of the Recs' interim "dividend race", previously headed by Eastern Electricity, which boosted its interim by 20 per cent last week. Many analysts had expected Midlands' payment to top the 7p mark but the actual figure of 7.55p took even the market optimists by surprise.

Midlands' shares touched a record 677p at one point before edging off the top to close a net 22 higher at 675p. It was pointed out, however, that the increase in Midlands' interim was an attempt to equalise the interim and final dividends, similarly to Eastern's move. Mr Nigel Hawkins, utilities analyst at Hoare Govett, said Eastern's move would lead to an annual dividend increase in the region of 14.6 per cent and Midlands' to an increase of 14.8 per cent. Hoare forecast similar moves by Southern, Seeboard and London.

South Wales Electricity, which announced its interims yesterday, was totally overshadowed by Midlands' dividend performance, the shares easing to 699p, in spite of lifting its payment by 14 per cent.

East Midlands, up 7 at 616p after 623p, is due to report this morning with a dividend increase of at least 13 per cent said to be on the cards. Seeboard, 12 higher at 695p, reports tomorrow. Northern Ireland Electricity forged ahead a further 15 to a closing peak of 241p.

Hanson active

Conglomerate Hanson was actively traded following exceptionally heavy turnover in the US and some technical position taking in UK traded options. In New York on Monday night the equivalent of 150m shares were traded, followed by a further 75m during the first half of yesterday's trading session. Dealers said US investors were "dividend rolling" – stripping out the dividend following the group's disappointing results at the end of last week.

Since the figures, the shares have come back around 25p from their all-time high. Many investors considered that at their reduced level they offered value and in London yesterday one house carried out a bullish trade in the options market where the equivalent of 6m shares changed hands. As a result of all this frenetic activity the stock rallied from a low of 257p to close 1¼ off at 260½p with 15m shares dealt.

Bearish speculation in Signet Group, formerly Ratners, saw the shares retreat, although they managed a slight recovery to close 2 off at 20p. The shares have now declined 33 per cent in the past month as talk of poor sales at the group's three core jewellery chains – Ratners, Ernest Jones and H Samuel – has been heard in the market. Some stores specialists estimate pre-Christmas sales could be down by as much as a fifth and yesterday there was talk that the company could bring forward a widely-expected rationalisation programme. This is believed to focus particularly heavily on the Ratners chain, with some 40 stores facing possible closure. There have also been persistent rumours of the imminent sale of Ernest Jones.

Bank shares continued to race ahead with another burst of institutional buying interest, triggered by ever-increasing hopes of above-average dividend rises in the sector. And there were suggestions that the recent blaze of buying activity in the banks, which has caught many of the leading marketmakers short of stock, may well prompt a widening of dealing spreads in the sector.

Abbey National shares rose 15 to a record 460p, with worries about shrinking margins, after the bank lowered its mortgage rate, said to have been dissipated. Credit Lyonnais Laing was said to have led a surge of buying in the stock after a lunch with senior Abbey officials. Royal Bank of Scotland advanced to another all-time high of 448p before closing a net 7 better at 446p, as did Lloyds, up 8 at 648p.

The interim profits upsurge and doubled dividend from trading house Smith New Court came as no surprise to the stock market where Smith shares, trading at a lowly 77½p as recently as September 1992, fell back from a record 423p, to close a net 11 off at 411p.

Food retailers again faced another difficult session in the wake of further broker caution. After several weeks of downgrades following analysts concerns over the supermarket price war, renewed fears over profitability were sparked last week by Argyll's decision to make property provisions in its results. Yesterday, Cazenove, which has a policy of refusing to comment to the press, was said to have lopped some £110m – or 18 per cent – from its Tesco profit forecast for the current year to £500m.

About £70m of the downgrade was said to be property provisions, although other brokers were sceptical over the Cazenove figure. One said: "The £70m has just been plucked from the air," pointing out that if Tesco adopts the same criteria as Argyll, profits due to property provisions will fall around £32m. However, shares continued to be undermined by the issue, Tesco fell 3 to 195p, J Sainsbury 9 to 408p and Argyll a penny to 287½p.

Pharmaceuticals group Medeva fell 7 to 132p as weakness in the sector was compounded by a downgrade from UBS. The house moved from 'speculative buy' to 'hold' and reduced its 1993 forecast by £5m to £40m.

The sector leaders suffered from profit-taking said to have been prompted by a technical trade in the derivatives market. Glaxo lost 12 to 633p and Wellcome slid 22 to 666p. Falls from Zeneca and SmithKline Beecham were limited by support from Goldman Sachs and Kleinwort Benson respectively. Zeneca fell 7 to 790p and SmithKline 3 to 393p.

British Aerospace slid 6 to 409p after talks to sell its Ballast Nedam broke down. A price tag of £170m had been mooted.

Profit-taking took the shine off good results from Siebe, the shares dropping 20 to 566p. Strauss Turnbull has pencilled in full-year profits of £220m.

NFC trailed off 6¼ to 234p ahead of results and an expected £200m rights issue today. Chemicals group Allied Colloids dropped 10 to 228p after reporting lower interim profits. Hoare Govett cut its forecast to £42m from £48m and said the shares were now overvalued.

Reports that Thorn EMI had been in takeover talks with Paramount from the US in November last year, lifted the shares 9 to 989p.

MARKET REPORTERS: Christopher Price, Peter John, Steve Thompson.

■ Other statistics, Page 22

■ NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (209)

BRITISH FUNDS (69) AMERICANS (1) Ingersoll-Rand, CANADIANS (1) Brascan, BANKS (7) Abbey Natl., Barclays, HSBC, Do. HK, Lloyds, Natl. Westminster, Royal Bank of Scotland, BREWERS (1) Eldridge Pope A, BLDG MATLS (2) BPB Inds., Sheffield Ins., BUSINESS SERVS (2) Dart, Fact (EW), CHEMS (1) Halstead (J), CONTG & CONSTRCN (4) Amec, Bansor [illegible]

NEW LOWS (28)

[illegible]

Data based on those Companies quoted on the London Share Service.

EQUITY FUTURES AND OPTIONS TRADING

The futures market was enlivened just before the official close by talk of a tussle between two securities houses surrounding expiry of a large tailor-made option, *writes Peter John*.

Dealers said that an OTC – an option contract containing details drawn up specifically for one client – expired just before the official close of Footsie futures and options dealing at 4.10pm.

Goldman Sachs and Société Générale Strauss Turnbull were pinpointed as the two houses most closely involved, although both houses denied any knowledge. The expiry was also said to have been behind weakness in the leading health and household stocks – Glaxo, Wellcome and Zeneca.

In any event, it provided a flurry of interest in an otherwise quiet day which began with a narrowing of the premium between the FT-SE 100 Index and the Footsie Futures contract which expires in December.

Concern that talks on the Gatt world trade agreement were not going as well as previously hoped gave an opportunity for some arbitrageurs to sell the December contract.

Then, late in the day, heavy buying in the underlying cash market saw the premium end the day at only 8 points, a return to more manageable levels. December closed at 3246.5 on turnover of 9,924 lots.

Turnover of only 29,697 traded options was enlivened by hefty volume of 6,284 contracts in Hanson. One house bought Hanson calls and sold puts, a bullish stance which takes the view that the underlying shares have fallen as far as they are likely to following disappointing figures at the end of last week.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3255.0	3246.5	-5.0	3257.0	3226.0	11705	49319
Mar	3276.5	3266.0	-4.5	3278.5	3247.0	1620	26735
Jun	3280.0	3276.0	-4.5	3280.0	3280.0	1	951

Contract traded on APT. Open interest figures are for previous day.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3238) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 1,470 Puts 185 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent.

FT-SE Actuaries Share Indices — The UK Series

[illegible]

■ FT-Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. [illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

■ Underlying security price. Premiums shown are based on closing offer prices. December 7. Total contracts: 29,290 Calls: 15,177 Puts: 14,103

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	33	23	22
Other Fixed Interest	0	3	10
Commercial, Industrial	248	322	881
Financial	57	31	79
Property	24	12	98
Investment Trusts	126	62	351
Oil & Gas	16	16	40
Mines	44	26	70
Others	46	45	56
Totals	613	534	1,586

Data based on those companies listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Introduction. § Placing price. F.P. Fully-paid security. For an explanation of other notes, please refer to the Guide to the London Share Service.

FINANCIAL TIMES EQUITY INDICES

[illegible]

Ordinary Share hourly changes

[illegible]

† Excluding intra-market business and overseas turnover.

TRADITIONAL OPTIONS

First Dealings	Dec. 6	Last Declarations	March 10
Last Dealings	Dec. 17	For settlement	March 21

3-month call rate indications are shown in Saturday editions.

Calls: ASDA, Avesco, Biotrace, Courtyard, Dart Group, Dixido Heel, Irish Life, Lovell (Y.J.), Milligate, Sleepy Kids, Tullow Oil. Puts: Dart Group, Irish Life, Tullow Oil.

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		18⅞	—	20$\frac{7}{16}$	15⅝	16,633	2.3
Allegheny & W	♥	451p	+1	722p	393p	288.4	4.4
Amdahl		367p	+6	591p	294p	412.1	0.9
Amer Cyanamid		34⅝	-⅛	39	31¼	3,088	3.4
Amer Express		20⅞	-$\frac{1}{32}$	25$\frac{3}{16}$	14⅞	10,045	3.2
Amer T & T		36⅞xd	+⅛	43¼	33⅛	49,892	2.4
Ameritech		52½	+$\frac{13}{32}$	58¾	46	22,898	4.7
Anheuser-Busch		33$\frac{7}{16}$xd	-$\frac{1}{16}$	41¼	29⅞	9,253	2.9
BankAmerica		30½xd	+¼	38$\frac{1}{16}$	27⅛	10,718	3.1
Bankers NY		52⅞	+$\frac{11}{16}$	54⅞	42⅞	4,384	3.8
Bell Atlantic		41		44¼	32¼	17,823	4.4
BellSouth		38¼	-$\frac{7}{32}$	42⅞	32⅞	19,142	4.8
Bethlehem Steel	♥	11⅛	-⅜	13¼	8½	1,018	–
Bowater		1394p	+23	1668p	1189p	505.1	2.9
CPC		31$\frac{1}{16}$	+$\frac{3}{32}$	34⅞	35	4,808	2.7
California Engy		1309p	—	1479p	1086p	237.6	–
Chase Manhattan		22⅞	+⅛	24$\frac{3}{4}$	17⅞	3,570	3.5
Chrysler		36⅝	+⅛	39	21¼	10,652	1.5
Chicorp		24⅛	+½	28	13$\frac{1}{4}$	8,818	–
Colgate-Palm		40¼	+⅛	45⅞	32	6,428	2.4
Cont'l Bank		1644p	-2	1677p	1278p	1,061	2.4
Dana		36½xd	-$\frac{7}{16}$	39$\frac{7}{16}$	29$\frac{13}{16}$	1,658	2.9
Data General		634p	-18	961p	527p	174.9	–
Dexcom Inds	♥	87p		146p	87p	–	–
Dun & Brad		42⅞	+½	45⅞	37⅛	7,622	3.6
Eaton		33⅝	+⅛	37¼	25$\frac{3}{4}$	2,322	2.4
Echlin		21⅝	+$\frac{1}{16}$	22$\frac{13}{16}$	15$\frac{1}{16}$	1,380	2.2
FPL		25⅞	+⅛	27⅞	23¼	4,810	6.5
Ford Motor		41⅞	-⅛	43$\frac{1}{16}$	28$\frac{7}{16}$	20,601	2.5
Gen Elect		68$\frac{15}{16}$	-$\frac{3}{16}$	67⅛	53⅞	57,093	2.5
General Host	♥	460p	-23	723p	455p	–	4.9
Gillette		42½xd	+¼	43$\frac{1}{16}$	31$\frac{1}{16}$	9,338	1.3
Hasbro		20⅞	—	20⅞	20⅞	1,919	0.8
Honeywell		22½xd	+$\frac{1}{16}$	28½	20$\frac{13}{16}$	4,639	2.9
Houston Inds		30¼		33⅝	29⅛	3,982	6.5
Ingersoll-Rand		26$\frac{1}{16}$xd	+$\frac{13}{32}$	28$\frac{7}{16}$	19⅝	2,782	1.8
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	2,899	3.0

BUSINESS SERVICES

	Notes
ADT $	
Adam & Harvey	
Air London	
African Lakes	
Auto'ted Sec	
BET	
BNB Res	
BPP	
BSM	
Barbour Index	
Black & Edg	
Boustead	
Bridgend	
Brit Data Mangt	
Brit Fittings	
Brooks Service	
Business Post	
CRT	
Capita	
Casket	
Celtern Capital AS	
Christie Group	
Chubb Security	
Corp Servs	
Coutts Consulting	
Dart	
Davis Service	
EW Fact	
Gardiner	
Hays	
Hogg Robinson	
Holmes Protect $	♥
Hutch Whmp HK$	♥
ISS B DKr	
Inchcape	
Isa Food Machinery	
Johnson Cleaners	
Lep	

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

MINES - Cont.

[illegible]

	Price	+or-	1993 high	low	Mkt Cap£m	Yld Gr's
Eninex Ind	8¼	+¼	8¼	3¼	0.65	-
Europa Mnls	33	—	42	15	18.9	-
Glencar Expl	13	+2	13	6	2.40	-
Greenwich Res	[illegible]	—	22¼	5	12.3	-
Hemlo Gold C$	[illegible]	—	[illegible]	[illegible]	[illegible]	1.6
Ivernia West	30	—	87	31	19.6	-
Kells Mnls	14	—	14½	6	0.34	-
Kenmare	9	—	13½	6	8.01	-
Mallaga Res	7	—	29½	7	9.77	-
Navan Res	110	+8	119	25	23.7	-
5pc Ln Notes	104	+3	[illegible]	25	16.7	-
Oryx Gold	[illegible]	—	78½	27	—	-
Ovoca Res	20½	-3½	29½	3½	1.40	-
RTZ	734	+12	748	607	7,[illegible]	3.3

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MEDIA

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

STORES

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

INVESTMENT COMPANIES

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1992-93. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on MR 'Headline Earnings'. P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✦) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set at the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

J Rothschild Assurance PLC - Contd.

Royal Heritage Life Assurance Ltd

Scottish Provident Group - Contd.

Sun Life Unit Assurance Ltd - Contd.

Swiss Life (UK) PLC

Century Life International Ltd

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

JERSEY (REGULATED)(**)

Barclays Intl Funds

Asian Selection Funds

	Bid Price	Offer Price	+ or -	Yield Gross
China	$11.006	11.584	+0.172	0.0
Hong Kong	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]
Korea	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	[illegible]	[illegible]	[illegible]	[illegible]
South East Asia	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar Liquidity	[illegible]	[illegible]	[illegible]	4.4

Cater Allen Investment Management (CI)

Citibank (CI) Ltd "Citifunds"

Barclays Inv Funds (Luxembourg)

41 Avenue de la Gare L-1611 010 352 404844

CMI Asset Management (Luxembourg) SA

Kleinwort Benson Japanese Warrant Fund

Kleinwort Benson Select Fund (u)

Liberty ALL-STAR World Pfolio-Eqty Fd(u)

Lloyds Bank Luxembourg

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse

Nomura Rosenberg Alpha Fund Mark II

North Currency Fund

Pacific Basin Growth Fund

Citizens Investment Trust Mgt Co Ltd

The India Magnum Fund NV

Pakistan Fund

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

LUXEMBOURG (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Belgian, Danish rate cut

The continued strength of their currencies allowed Belgium and Denmark to cut interest rates yesterday, *writes Conner Middelmann*.

The Belgian National Bank cut its key central rate by 50 basis points to 7.50 per cent and its end-of-day rate by 50 basis points to 9.20 per cent.

The Danish central bank at its latest open-market operation lowered its 14-day certificates of deposit rate to 7 per cent, from 7.25 percent in the previous two-week offer.

Both currencies held up well after the rate cuts, with the Danish krone firming slightly while the Belgian franc ended little changed.

The krone ended at DKr3.933 to the D-Mark, up slightly from DKr3.934 at Monday's close. The franc closed at BF20.83 against the D-Mark, barely changed from BF20.82 late on Monday.

Further Belgian rate cuts are likely to continue underpinning the currency as they will boost the flagging economy and alleviate the interest burden on Belgium's massive budget deficits, analysts said.

"Part of the vicious circle has been that a substantial part of the budget deficit is due to high interest payments," noted Mr Steve Hannah, head of research at IBJ International. "If they continue getting rates down, that'll have a beneficial impact on the budget deficit, thus restoring market confidence."

● The Italian currency continued rising on widespread relief that the worst is over on the political front.

The lira began rallying after Sunday's municipal elections, where left-wing coalitions swept to power in several major cities at the expense of right-wing parties. It is also supported by hopes that the 1994 Budget, which was passed last week by the budget committee of the lower house, will be approved before the end of the year.

The lira opened around L985 against the D-Mark and rose as high as L981.25 during the session. It closed at L983.1 to the D-Mark, up from Monday's close of L989.8.

Despite its recent recovery, "the lira still looks cheap on fundamental gounds," said Mr André de Silva, market strategist at Paine Webber International. "Whenever the lira has fallen below L1,000 against the D-Mark, buyers have emerged, and, from a risk-reward perspective, we are a lot more comfortable in running open lira positions than we are the French equivalent."

The lira's strength gave a small lift to the Iberian currencies, though trade in all three was thin ahead of today's national holiday in Spain and Italy.

The Spanish peseta rose to Pta81.93 against the D-Mark, from Pta82.33 at Monday's close. The Portuguese escudo ended at Es101.9, up from Es102.0 on Monday.

● The French franc drifted lower through the day on concerns over the ongoing GATT world trade talks and data showing a 34.8 per cent increase in French corporate bankruptcies in October.

After breaking key support at FFr3.4360 against the D-Mark, the franc slipped as low as FFr3.444. It ended at FFr3.440, down from FFr3.434 at Monday's close.

● Sterling shed more than a pfennig against the D-Mark, largely on profit-taking amid thin trading conditions. However, some pointed out that recent rate-cut speculation cuts was also weighing on the currency. The pound ended at DM2.5450, down from DM2.5575 at Monday's close.

Market opinion is about evenly split over the likelihood of another ½-point base rate cut before Christmas, said Mr Ian Shepherdson, UK economist at Midland Global Markets. He listed three factors favoring a near-term rate cut: "the Budget's gone down very well in all markets, the fiscal tightening was at least as large as the Bank of England wanted, and most of Europe has cut rates."

However, he feels next Wednesday's November inflation numbers will clinch the decision on UK rates. "If the RPI is unchanged at 2.8 per cent or below, the market will be screaming for a rate cut." But until the RPI release, the pound is likely to drift in a narrow range, traders said.

In the money market, the Bank of England forecast a shortage of £1.7bn, which it later revised downward to £1.25bn.

At its morning operation it purchased £17m band 1 bills and £20m band 2 bills at 5⅜ per cent. In a later round, it purchased a total of £196bn of band 1 and 2 bills at 5⅜ per cent, and provided late assistance of around £755m.

● The D-Mark firmed slightly when the Bundesbank revised its October M3 money supply growth numbers to 6.9 per cent, from the provisional 6.8 per cent rate released some two weeks ago.

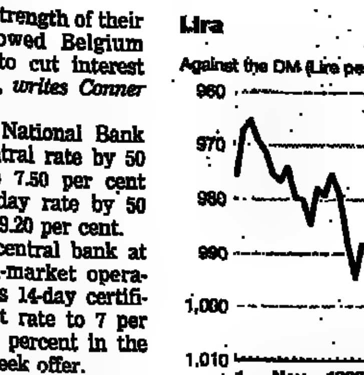
"The numbers were a touch disppointing - a lot of people had expected a downward revision," said IBJ's Mr Hannah. M3 growth remains above the Bundesbank's 4.5-6.5 per cent target range.

The Bundesbank today will allocate another round of 14-day repos at a fixed 6 per cent - the first of five fixed-rate repos at that rate. Some DM95bn in repos expire today and traders are calling for a small net liquidity injection.

In late London trading the dollar tested key technical and psychological support at DM1.7000 but closed at DM1.7055, down a touch from DM1.7060 at Monday's close.

Lira

Against the DM (Lire per DM)



Source: FT Graphite

■ **Pound in New York**

Dec 7	Latest	Prev. close
£ spot	1.4950	1.5045
1 mth	1.4924	1.5020
3 mth	1.4882	1.4978
1 yr	1.4767	1.4864

POUND SPOT FORWARD AGAINST THE POUND

Dec 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.90	-0.1	785 - 795	18.00	17.85	17.9106	-0.7	17.9237	-0.8	-	-	114.1
Belgium	(BFr)	53.00	-0.26	[illegible]	53.45	52.95	53.09	-2.0	53.255	-1.9	53.605	-1.1	113.4
Denmark	(DKr)	10.0125	-0.05	075 - 175	10.0705	10.0075	10.0385	-3.1	10.0765	-1.9	10.178	-1.7	115.1
Finland	(FM)	8.6630	-0.059	480 - 780	8.6040	8.5480	-	-	-	-	-	-	78.6
France	(FFr)	8.7550	-0.03	500 - 600	8.7960	8.7480	8.7665	-1.6	8.795	-1.4	8.8135	-0.7	107.4
Germany	(DM)	2.5450	-0.0125	425 - 475	2.5610	2.5420	2.5474	-1.1	2.5507	-0.9	2.5512	-0.2	123.8
Greece	(Dr)	385.70	-1.65	550 - 590	387.45	384.95	-	-	-	-	-	-	-
Ireland	(I£)	1.0550	-0.0015	545 - 555	1.0605	1.0540	1.0558	-1.0	1.0573	-0.9	1.0621	-0.7	101.9
Italy	(L)	2502.00	-29.75	150 - 250	2526.65	2496.80	2509.5	-3.6	2524.5	-3.6	2561	-3.2	76.3
Luxembourg	(LFr)	53.00	-0.25	295 - 305	53.45	52.95	53.09	-2.0	53.255	-1.9	53.605	-1.1	113.4
Netherlands	(Fl)	2.8525	-0.015	475 - 575	2.8675	2.8475	2.854	-0.6	2.8555	-0.4	2.8559	-0.1	119.1
Norway	(NKr)	11.0375	-0.025	325 - 425	11.1460	11.0585	11.0437	-0.7	11.0475	-0.4	11.0377	0.0	86.7
Portugal	(Es)	259.30	-1.7	880 - 980	262.70	259.35	260.74	-6.7	263.075	-5.8	-	-	-
Spain	(Pta)	208.45	-2.15	830 - 860	210.05	207.95	209.15	-4.0	210.5	-3.9	215.4	-3.3	85.4
Sweden	(SKr)	12.4275	-0.04	225 - 325	12.5000	12.3995	12.4515	-2.3	12.4855	-1.9	12.6035	-1.4	73.3
Switzerland	(SFr)	2.1875	-0.015	825 - 925	2.2020	2.1825	2.1861	0.8	2.1823	1.0	2.1596	1.3	118.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	81.5
Ecu	-	1.3190	-0.0085	185 - 195	1.3265	1.3185	1.3206	-1.5	1.3231	-1.2	1.328	-0.7	-
SDR†	-	0.929241	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4900	-0.0076	895 - 905	1.5010	1.4880	-	-	-	-	-	-	-
Brazil	(Cr)	376.60	+2.95	655 - 665	379.00	373.00	-	-	-	-	-	-	-
Canada	(C$)	1.9730	-0.0155	725 - 735	1.9890	1.9720	1.9706	1.5	1.9669	1.2	1.9604	0.6	91.4
Mexico	(New Peso)	4.6340	-0.026	320 - 360	4.6665	4.6310	-	-	-	-	-	-	-
USA	($)	1.4990	-	985 - 995	1.5040	1.4910	1.4964	2.1	1.4923	1.8	1.4805	1.2	66.5
Pacific/Middle East/Africa													
Australia	(A$)	2.2365	-0.004	360 - 370	2.2635	2.2350	2.2353	0.7	2.2334	0.6	2.2332	0.1	-
Hong Kong	(HK$)	11.5265	-0.0666	260 - 270	11.6160	11.5140	11.5117	1.5	11.4807	1.6	11.3854	1.2	-
India	(Rs)	46.95	-0.1	690 - 700	47.20	46.75	-	-	-	-	-	-	-
Japan	(Y)	160.50	-0.5	000 - 100	162.35	160.00	160.05	3.4	159.2	3.2	155.45	3.1	181.6
Malaysia	(M$)	3.8065	-0.023	060 - 090	3.8380	3.8055	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.7095	-0.0225	075 - 115	2.7320	2.7075	2.7102	-0.3	2.7114	-0.3	2.7215	-0.4	-
Philippines	(Peso)	40.25	-0.25	020 - 030	40.35	40.20	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.5880	-0.032	975 - 985	5.6410	5.5920	-	-	-	-	-	-	-
Singapore	(S$)	2.3840	-0.018	835 - 845	2.4030	2.3825	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.0205	-0.026	200 - 210	5.0610	5.0165	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5150	-0.157	075 - 225	6.6875	6.5075	-	-	-	-	-	-	-
South Korea	(Won)	1206.10	-6.05	790 - 830	1216.50	1206.95	-	-	-	-	-	-	-
Taiwan	(T$)	40.15	-0.25	010 - 020	40.45	40.10	-	-	-	-	-	-	-
Thailand	(Bt)	37.95	-0.25	790 - 800	38.20	37.90	-	-	-	-	-	-	-

†SDR rate for Dec 6. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Morgan G'ty chges %
Europe													
Austria	(Sch)	11.9950	-0.0025	925 - 975	12.0000	11.9555	12.0192	-2.4	12.0642	-2.3	12.1875	-1.6	+16.34
Belgium	(BFr)	35.55	-	530 - 580	35.60	35.35	35.6725	-4.1	[illegible]	-3.7	35.4	-2.4	+0.02
Denmark	(DKr)	6.7100	-0.0005	075 - 125	6.7165	6.6905	6.739	-5.2	6.783	-4.4	6.905	-2.9	+8.72
Finland	(FM)	5.7375	-0.0065	275 - 475	5.7475	5.7030	5.7525	-3.1	5.7745	-2.6	5.84	-1.8	-
France	(FFr)	5.8675	+0.0075	650 - 700	5.8695	5.8395	5.8855	-3.7	5.914	-3.2	5.98	-1.9	-7.79
Germany	(D)	1.7055	-0.0015	050 - 060	1.7065	1.6995	1.71	-3.2	1.7163	-2.5	1.7299	-1.4	+31.55
Greece		[illegible]											
Ireland		[illegible]											
Italy		[illegible]											
Luxembourg		[illegible]											
Netherlands		[illegible]											
Norway		[illegible]											
Portugal		[illegible]											
Spain		[illegible]											
Sweden		[illegible]											
Switzerland		[illegible]											
UK		[illegible]											
Ecu		[illegible]											
SDR†		[illegible]											
Americas													
Argentina		[illegible]											
Brazil		[illegible]											
Canada		[illegible]											
Mexico		[illegible]											
USA		[illegible]											
Pacific/Middle East/Africa													
Australia		[illegible]											
Hong Kong		[illegible]											
India		[illegible]											
Japan		[illegible]											
Malaysia		[illegible]											
New Zealand		[illegible]											
Philippines		[illegible]											
Saudi Arabia		[illegible]											
Singapore		[illegible]											
S Africa (Com.)		[illegible]											
S Africa (Fin.)		[illegible]											
South Korea		[illegible]											
Taiwan		[illegible]											
Thailand		[illegible]											

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec.7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.89	16.52	4.802	1.991	4721	5.383	20.83	489.2	393.4	23.45	4.128	1.887	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	52.95	10	8.746	2.542	1.054	2500	2.850	11.03	259.0	208.3	12.42	2.185	0.999	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	60.54	11.43	10	2.907	1.205	2858	3.259	12.61	296.2	238.1	14.20	2.499	1.142	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	20.83	3.933	3.440	1	0.415	983.1	1.121	4.338	101.9	81.93	4.884	0.860	0.393	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	50.24	9.488	8.299	2.412	1	2372	2.704	10.46	245.8	197.6	11.78	2.074	0.948	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	2.118	0.400	0.350	0.102	0.042	100.	0.114	0.441	10.36	8.335	0.497	0.087	0.040	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]																
Norway	(NKr)	[illegible]																
Portugal	(Es)	[illegible]																
Spain	(Pta)	[illegible]																
Sweden	(SKr)	[illegible]																
Switzerland	(SFr)	[illegible]																
UK	(£)	[illegible]																
Canada	(C$)	[illegible]																
US	($)	[illegible]																
Japan	(Y)	[illegible]																
Ecu		[illegible]																

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

■ **STERLING FUTURES** (IMM) £62,500 per £

EMS EUROPEAN CURRENCY UNIT RATES

NON ERM MEMBERS

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

WORLD INTEREST RATES

MONEY RATES

■ **$ LIBOR FT London**

EURO CURRENCY INTEREST RATES

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

■ **THREE MONTH EURODOLLAR** (LIFFE) $1m points of 100%

■ **THREE MONTH EUROMARK FUTURES** (LIFFE) DM1m points of 100%

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

UK INTEREST RATES

LONDON MONEY RATES

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

هكذا من الأصل

WORLD STOCK MARKETS

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1993. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, December 7, 1993

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.1m	304	+6
Hitachi	3.3m	765	-4
Mitsui Co Ltd	2.7m	663	+3
Matsushita	2.6m	1,430	+20
NKK Corp	2.5m	229	+3
Tochigi Bank	2.5m	1,050	-20
Mitsubishi Heavy	2.3m	636	+21
Toshiba Corp	2.2m	646	+5
NEC Corp	2.1m	539	+7
Sumitomo Electric	2.1m	1,250	+10

INDICES

[illegible]

	Dec 7	Dec 6	Dec 3	1993 High		1993 Low	
MS Capital Int (1/1/70)§	(u)	587.2	586.6	607.10	15/10	488.60	13/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1399.50	1397.37	1387.12	1399.50	7/12	[illegible]	13/1
Euro Top-100 (26/6/90)	1177.42	1176.41	1169.03	1177.42	7/12	862.73	13/1
JCapeDrgnt (31/12/88)	(u)	318.25	310.99	318.25	7/12	189.92	4/1
Barings Emerg.(7/1/92)	151.23	148.06	145.61	151.23	7/12	[illegible]	4/2

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2196.0	2187.0	-13.0	2198.0	2181.0	15,171	58,139
Jan	2208.5	2198.5	-13.0	2209.5	2196.0	408	2,555
Feb	2220.5	2210.5	-13.0	2220.5	2220.5	1	150
Mar	2230.0	2220.5	-13.0	2230.5	2216.0	72	8,751

Open interest figures for previous day.

Base values of all indices are 100 except Australia All Ordinary ... Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and ... Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ ...

US INDICES

Dow Jones	Dec 6	Dec 3	Dec 2	1993 High	1993 Low	Since compilation High	Since compilation Low
Industrials	3710.21	3704.07	3702.11	3710.77 (16/11)	3241.95 (20/1)	3710.77 (16/11/93)	41.22 (2/7/32)
Home Bonds	110.61	108.50	108.54	110.61 (6/12)	103.49 (11/1)	110.61 (6/12/93)	54.99 (1/10/81)
Transport	1798.35	1784.04	1770.67	1770.67 (2/12)	1453.84 (4/1)	1770.67 (2/12/93)	12.32 (8/7/32)
Utilities	225.91	223.90	224.92	256.46 (31/8)	217.14 (8/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3736.44 (3726.98) Low 3687.30 (3677.80) (Theoretical♠)
Day's high 3721.39 (3709.66) Low 3702.11 (3694.29) (Actual♠)

Standard and Poors	Dec 6	Dec 3	Dec 2	1993 High	1993 Low	Since compilation High	Since compilation Low
Composite ‡	466.43	464.89	463.11	469.50 (15/10)	429.05 (8/1)	469.50 (15/10/93)	4.40 (1/6/32)
Industrials♥	539.25	537.41	535.14	540.25 (16/11)	496.48 (26/4)	540.25 (16/11/93)	3.62 (21/6/32)
Financial	44.60	44.12	43.92	48.40 (28/9)	39.89 (8/1)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	257.66	256.74	255.64	260.48 (15/10)	236.21 (8/1)	260.48 (15/10/93)	4.46 (25/4/42)
Amex Mkt Val	466.62	468.32	462.66	484.28 (2/11)	395.84 (8/1)	484.28 (2/11/93)	29.31 (9/12/72)
NASDAQ Cmp	771.09	772.22	786.73	787.42 (15/10)	645.87 (26/4)	787.42 (15/10/93)	54.87 (31/10/72)

■ RATIOS

	Dec 3	Nov 26	Nov 19	Year ago
Dow Jones Ind. Div. Yield	2.70	2.71	2.71	3.13
	Dec 1	Nov 24	Nov 17	Year ago
S & P Ind. Div. yield	2.41	2.40	2.38	2.65
S & P Ind. P/E ratio	27.06	27.14	26.89	27.71

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	467.30	466.85	-0.30	467.75	466.15	57,422	152,680
Mar	-	-	-	-	-	-	-
Jun	-	-	-	-	-	-	-
Sep	-	-	-				

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Hanson	31,230,000	19¼	-⅛
Telefonos	5,213,100	59⅞	+1¾
Seagram	4,559,200	26⅛	-⅛
Pacael	3,780,000	25⅞	+⅛
Merck	3,584,900	34⅜	+⅜
Limited	2,577,900	17⅞	+⅛
Gen Motors	2,517,400	54⅞	-⅛
Motorola	2,421,100	94⅛	-2
Abbott Labs	2,126,500	30	+¼
Philip Morris	2,118,900	55½	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Dec 6	Dec 3	Dec 2
New York SE	287.414	268.339	253.078
Amex	16.238	18.231	18.221
NASDAQ	292.660	327.870	299.133
NYSE			
Issues Traded	2,593	2,681	2,674
Rises	1,218	1,205	1,164
Falls	848	817	839
Unchanged	627	659	671
New Highs	102	78	62
New Lows	27	28	23

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

4 pm close December 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14 5/8	11 1/2	AAR	0.48	3.5	603	70	14 1/8	13 3/4	13 7/8	
23 1/8	12 3/4	A L Labs A	0.18	1.4	30	1281	13 5/8	12 7/8	13	
67 3/4	54 5/8	AMP	1.60	2.6	21	1858	61 1/8	60 1/8	61 1/8	+1 1/8
72 3/4	55 1/2	AMR			53	2351	67 3/4	65 1/8	67 1/2	+1 5/8
3 7/8	1 3/8	ARX			14	210	3 5/8	3 3/8	3 5/8	+1/4
51 1/2	29 7/8	ASA	2.00	4.2	31	383	47 5/8	47	47 5/8	+1/4
30 1/4	22 7/8	AbbtL	0.68	2.3	18	11678	30 1/8	29 5/8	29 3/4	-1/4
12 5/8	8 1/4	Abitibi Pr	0.50	4.4	7	173	11 1/2	10 7/8	11 1/4	+3/8
16 5/8	8 1/4	Acpincain			20	203	12 1/4	12	12 1/4	
35	25 1/2	ACE Ltd	0.40	1.3	6	420	29 7/8	29 1/2	29 3/4	+1/8
12 1/4	10 3/4	ACM Gvt In x	1.09	9.1		289	12 1/8	12	12	-1/8
10 1/8	9 1/8	ACM GvOpp x	1.59	16.6		132	9 5/8	9 3/8	9 5/8	+1/8
10 1/8	8 3/4	ACM Gvt Sp x	0.98	9.6		318	u10 1/8	10	10	
12	10 1/2	ACM Gvt Se x	1.09	9.2		371	11 7/8	11 3/4	11 7/8	+1/8
12 1/4	9 5/8	ACM Man x	2.58	23.5		106	10 7/8	10 3/4	10 7/8	+1/8
9 5/8	8 5/8	ACM Managd x	0.72	7.9		110	9 1/4	9 1/8	9 1/8	+1/8
12 3/8	7 3/4	AcmeCle	0.44	4.6	12	17	9 1/2	9 1/2	9 1/2	-1/4
11 7/8	6 3/8	Acme Elect			40	35	9	9	9	+1/8
27 7/8	18 5/8	Acordia	0.44	1.9	13	13	23 5/8	23 1/2	23 5/8	+1/4
18	10 5/8	Acuson			57	193	12 7/8	12 5/8	12 3/4	+1/8
21 3/4	17 3/4	Adams Expr	0.52	2.8	0	93	18 3/4	18 1/8	18 3/4	+1/8
66 1/4	45 1/2	Ad Micro	3.00	6.3		511	47 1/2	46 5/8	47 1/2	+1/8
32 3/4	17 7/8	AdvMlc	3.00	16.6	6	9378	18 1/4	d17 1/2	18 1/8	+1/8

TECHNOLOGY THAT WORKS FOR LIFE

Samsung Personal Fax

Telephone Answering Machine
Automatic Paper Cutter
60 Locations Automatic Dial

SAMSUNG ELECTRONICS

Continued on next page

NYSE COMPOSITE PRICES

4 pm close December 7

NASDAQ NATIONAL MARKET

4 pm close December 7

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
DauphinDp	0.92	13	341	25¾	28	26¾	+½
Deb Shops	0.20	18	76	6¾	6¼	6¼	
Dekalb En	0.32	21	302	15⅝	14	14¼	-1⅜
Dekalb Ge	0.80	50	106	30	29¼	29⅝	+⅛
Delchamps	0.44	10	114	23	22¼	22¼	
Dell Comp		34	11583	26¾	25⅝	25¾	-¾
DentsDSm	0.16	20	1696	16¾	16⅜	16¾	
Dep Gty	1.00	8	320	29¼	28½	28½	-½
Devcon	0.20	3	2	6¾	6¾	6¾	
DH Tech		15	45	16½	15¾	16½	+¼
Dibrell B	0.72	10	210	26½	25¾	26¼	+¼
Digi Intl		19	447	21	19¾	19¾	-1
Dig Micro		77	812	23¾	23¼	23¼	-½
Dig Sound		4	1144	1¼	1	1⅛	
Dig Syst		6	75	3⅞	[illegible]	3½	-⅜
Dionex Cp		16	97	38	32¼	32⅞	+⅝
Dixie Yrn	0.20	16	302	9½	9¼	9⅜	+⅛
DNA Plant		5	495	5⅜	5¼	5¼	
Dollar Gn	0.20	27	5080	28⅝	27½	27⅞	-⅞
Dom Bkshs	0.44	55	961	u27¼	26⅞	27	
Dorch Htn	0.68	20	z100	15¼	15¼	15¼	-⅛
DrescoEngy		7	420	11½	d10	10	-1½
DressBarn		15	1457	14⅞	13⅞	14	-¾
Drey GD	0.24	25	1850	30¾	30	30¾	+½
Drug Empo	0.08	50	1148	5	4⅞	4⅞	-⅛
DS Bancor	1.00	10	143	18½	18	18½	-⅜
Durron	0.60	25	64	22½	21¾	21¾	-¼
Durr Fill	0.30	24	8	a33⅛	32⅞	32⅞	
DynashCl		0	5	⅜	⅜	⅜	

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Jones Med	0.10	25	238	15¼	14⅞	15	+½
Joslyn Cp	1.18	11	11	25	24½	24½	-½
JSB Fin	0.64	11	957	23⅞	23⅞	23⅝	-¼
Juno Ltg	0.24	21	114	20	19¾	20	+¼
Justin	0.16	11	907	14¼	13¾	14¼	

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Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]		13	430	23	22	23	
Kaman Co	0.44	5	484	9⅝	9¼	9½	-⅛
Karcher C	0.08	28	663	u10	9¾	9⅞	
Kaydon Cp	0.40	12	458	20½	19½	20½	+1
KelleyOil		100	2348	10¼	9	10	+⅜
Kelly Sv	0.64	23	1440	28¼	27¼	27½	-¾
KenCentm	0.44	1	1167	3¾	3⅞	3⅞	
Kentucky	0.11	11	5	6¾	6¾	6¾	
Kimball	0.64	19	48	31¾	31¼	31½	-¼
Kirschner		38	12	8½	8½	8½	
KLA Instr		42	1687	22¾	22	22	-½
Knowledge		9	3808	u18¾	17¼	18¾	+1
Komag Inc		14	630	16¼	15¾	16¼	+¼
Kulicke S		11	1246	15⅜	14⅞	15⅜	-⅛

AMEX COMPOSITE PRICES

4 pm close December 7

AMERICA

Dow shrugs off hint of tight monetary policy

Wall Street

US stocks nudged into record territory yesterday morning, shrugging off comments by the Federal Reserve vice-chairman which were interpreted as a signal of an early tightening of monetary policy, *writes Frank McGurty in New York.*

At 1 pm, the Dow Jones Industrial Average was 7.55 ahead at 3,717.76, well above the all-time high closing level of 3,710.77. However, the more broadly based Standard & Poor's 500 was 0.43 weaker at 466.00. In the secondary markets, the Nasdaq composite fell 2.52 to 768.57.

Volume was 162m shares traded by 1 pm.

Equities opened broadly higher, building on a week of steady, if unimpressive, gains which reflected a stream of positive economic news.

During mid-morning, the market became rattled by comments from Mr David Mullins, the Fed vice-chairman, who said that "vigilance" was required in view of the economy's strong growth in the fourth quarter. He added that the Fed could not afford to wait until clear signs of inflation emerged before acting to raise short-term interest rates.

His remarks were interpreted by analysts as a signal that the Fed may tighten monetary policy sooner, rather than later, possibly as early as the first quarter of next year.

The impact on the US Treasury bond market was discernible, but not devastating. The benchmark 30-year government issue was $\frac{1}{8}$ lower at $101\frac{1}{32}$ by 1 pm, with the yield rising to 6.168 per cent.

A jump in crude oil futures, which tumbled to five-year lows late Monday, gave a lift to oil issues. Mobil gained $¾ to $75¾, Exxon climbed $¾ to $63, Amoco was $¼ higher at $52⅞, and Phillips was $¼ ahead at $28¾.

However, many transportation issues, which often decline on higher oil prices, remained firm. United Airlines was up $⅝ at $151¼ and Delta added $¼ to $58⅝.

Investors even shrugged off an announcement by American that the recent strike by flight attendants had cost the carrier $160m after-tax, higher than analysts had forecast. Yet the stock climbed $¾ to $66⅝.

Wall Street was pleased with RJR Nabisco's announcement of a big restructuring programme, marking the issue up $⅛ to $6⅝.

Meanwhile, Boeing climbed $1 to $39⅞ after Salomon Brothers lifted its rating on the stock from "buy" to "hold".

On the Nasdaq, semiconductor issues firmed after some analysts commented that Monday's big sell-off had been unwarranted. Intel was unchanged at $59⅛, Novellus Systems added $1 to $29½ and Applied Technology put on $⅝ to $35⅞.

Mexican stocks fell back slightly in midsession trading as investors began to take profits after the market's recent rise to record levels.

The IPC index was down 9.50 at 2,376.64 in volume estimated at 27.7m shares. Among the actives, Cifra, the food chain, dropped 4 per cent in the "B" shares on reports of a downgrading by a US broker.

Canada

Toronto continued its strong performance on strength in base metals and bank stocks.

The TSE-300 composite index was up 16.17 at 4,262.16 in turnover of 39.5m shares valued at C$482.7m.

EUROPE

Bourses feel the need for consolidation

Bourses were inhibited by the need for consolidation yesterday, although Milan and Stockholm managed to move firmly ahead, *writes Our Markets Staff.*

FRANKFURT eased on the official session but rose in the afternoon, when the Ibis indicated DAX index ended at 2,127.38 after easing 3.34 to 2,115.46 earlier. Turnover slipped from DM8.8bn to DM7.6bn.

Chart and technical buying were offered as reasons why Commerzbank put on DM5.80 to DM382.80, and climbed further to DM390.50 in the London afternoon, and why BMW rose DM9 to DM644.

Elsewhere, professionals looked for special situations, and found them in AEG, up another DM5.50 to DM185.90 on structural reorganisation talk ahead of today's supervisory board meeting, and in Escada, the garment company, DM28.50 better at DM299 on a lower than expected 1992-93 loss, a return to the preference dividend list and a forecast return to profit in the current year.

MILAN overcame mid-session profit-taking and the Comit index added 9.31 or 1.7 per cent to 573.46, reflecting growing optimism over the political outlook and timely passage of the budget. Trading was active ahead of today's national holiday.

However, Morgan Stanley, overweight in Italian equities between April and September when it began switching into French defensive stocks, said yesterday that it was maintaining its underweight position ahead of the general election, early next year. Mr David Roche and Mr Richard Davidson attributed their caution to political risks and doubts over whether the PDS would be able to implement the hard nosed economic reform that Italy needed if the debt/GDP ratio was to be mastered.

Credito Italiano rose L99 or 4.4 per cent to L2,358, its privatisation offer looking substantially oversubscribed.

Foreign buying supported industrials. Olivetti rose L59 or 4.4 per cent to L1,911 in volume of 15.1m shares and Pirelli was L47 ahead at L1,994. Fiat added L35 to L4,214, unable to sustain the day's high of L4,290, in volume of 16.7m shares.

PARIS remained caught in a downward correction as concern over the Gatt talks continued to weigh on sentiment. The CAC-40 index sliped 10.62 to 2,176.12, but off a low of 2,167.70 and down from a high of 2,185.82. Turnover was around the FFr3bn level.

Club Med, which is no longer a CAC-40 stock, saw sprightly activity on rumours that it was planning a share swap with the German travel group LTU. Club Med denied the reports but the shares ended FFr26.40 higher at FFr341.80.

AMSTERDAM paused for breath with the CBS Tendency index moving upwards a bare 0.1 to 139.8.

Goldman Sachs, in a global strategy report, remained positive on Dutch cyclicals, expecting this sector to show the largest gains over the next 12 months. The US investment bank forecast a pick up in exports and investments in 1994, "while consumer spending is expected to show limited growth...Currently the market is interest rate driven, which is expected to boost the performance of both financials and cyclical companies, the latter also benefiting from a pick-up in exports and restructuring measures".

KNP BT, the paper manufacturer, added 10 cents to Fl 41.10 on news that it was near to reaching an agreement on the sale of a subsidiary.

STOCKHOLM saw a rebound in Volvo Bs, which put on SKr26 at SKr461 on a return to the argument that the failure of the merger plan with Renault was good for the Swedish company's equity rating.

The Affärsvärlden General index rose 18.5, or 1.4 per cent to 1,356.8. Trelleborg, the mining and metals group, rose SKr5.50, or 7.6 per cent to SKr70.50 with support from firmer metal prices; Electrolux put on SKr8 to SKr296 on the story that it would take over AEG's household appliance subsidiary; and Handelsbanken closed SKr3 higher at SKr109 on the withdrawal of its offer for Gota Bank.

ZURICH paused to consolidate the cumulative 4.6 per cent advance of the previous four sessions and the SMI index finished 1.6 easier at 2,834.8. ISTANBUL lost 3.5 per cent as many investors decided to take profits. The composite index fell 636.3 to 17,391.8 in turnover of TL1,660bn.

FT-SE Actuaries Share Indices

Dec 7							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1400.20	1399.16	1399.00	1395.72	1396.61	1398.76	1398.65	1399.50
FT-SE Eurotrack 200	1467.07	1468.86	1467.08	1465.54	1466.04	1466.30	1467.36	1467.49

	Dec. 6	Dec. 3	Dec. 2	Dec. 1	Nov. 30
FT-SE Eurotrack 100	1397.37	1387.12	1374.18	1365.54	1343.12
FT-SE Eurotrack 200	1469.43	1464.15	1456.67	1452.41	1420.62

Base value 1000 (26/10/90); Highday: 100 - 1400.20; 200 - 1468.86 Lowday: 100 - 1395.60 200 - 1464.76

Written and edited by William Cochrane, John Pitt and Michael Morgan

ASIA PACIFIC

Tokyo edges higher as region sets records

Tokyo

Investors were hesitant to sell shares against heightening prospects of a further decline in interest rates, and the Nikkei average, which dropped 3.5 per cent on Monday, closed marginally higher on short-covering, *writes Emiko Terazono in Tokyo.*

The 225-issue index regained 63.11 at 16,903.49. The Topix index of all first section stocks, which fell 46.25 on Monday, picked up 6.75 to 1,420.61.

Traders said renewed hopes of an imminent cut in the official discount rate kept investors from further selling. Hopes of monetary easing by the Bank of Japan pushed down bond yields, and the No 157 10-year benchmark fell to a low for the year of 3.145 per cent, although it closed unchanged on the day at 3.165 per cent.

After declining to a day's low of 16,791.28 in the morning session, the Nikkei gained ground on speculation of lower interest rates. The index fell briefly on profit-taking, but was supported later by small-lot buying by investment trust funds and foreign brokers which took it to a high of 17,128.81 in the afternoon.

Volume remained flat at 220m shares. Declines outscored advances by 536 to 455, with 156 issues unchanged. In London the ISE/Nikkei 50 index eased 2.39 to 1,157.61.

Professionals were absorbed with the domestic political situation and the government's economic stimulus package. Some investors feared that the government's likely decision to partially open Japan's rice market ahead of the deadline of the Uruguay Round of multilateral talks might expose the strains within the seven-party coalition, further delaying implementation of the fiscal stimulus.

Mr Morihiro Hosokawa, the prime minister, indicated yesterday that he was ready to accept a compromise agreement on rice, while members of the Socialist party, staunchly opposed to the lifting of the rice ban, reiterated threats to leave the coalition.

Foreign buying supported blue chip exporters. Matsushita Electric Industrial put on Y20 at Y1,430 and Toshiba Y5 at Y646, while Toyota Motor advanced Y40 to Y1,750.

Daiichi Pharmaceutical recovered Y30 to Y1,420 and Yakult Honsha by Y50 to Y2,267 after Daiichi denied reports that clinical tests of their new anti-cancer drug had side effects that led to a high death rate in patients.

Nippon Telegraph and Telephone rose Y9,000 and East Japan Railway gained Y11,000 at Y422,000, both rising for the first time in three trading days.

In Osaka, the OSE average firmed 10.91 to 18,705.79 in volume of 16.6m shares.

Roundup

Tokyo's improvement helped some of the Pacific Basin markets to climb to peak levels.

HONG KONG spent the day in record territory but prices turned back from their best levels when the Hang Seng index neared 10,000 as investors remembered the political uncertainties that cloud future prospects.

The Hang Seng still finished 126.86, or 1.3 per cent, ahead at 9,736.57 after an intraday peak of 9,937.36. The previous record close of 9,733.34 was established on November 15.

BANGKOK surged 4.7 per cent to a record close as foreign institutions returned to buy shares before local mutual fund purchases push prices further ahead. The SET index strengthened 65.15 to 1,442.56, surpassing its previous peak of 1,380.84 set on November 12.

KUALA LUMPUR posted its sixth consecutive all-time closing high, the composite index adding 22.14, or 2.1 per cent, at 1,063.35, on the back of strong speculative and institutional buying.

Volume was 940.6m shares, the largest since the record 1.04bn of April 15, and compared with Monday's 901.8m.

SINGAPORE found cause for optimism in the outlook for improved corporate earnings, and the Straits Times Industrial index added 18.00 to close at a record 2,163.54.

Malaysian speculative shares traded over the counter continued to dominate trading and led the 30 top actives.

MANILA was supported by the rebound in other regional markets and growing optimism about the economy. The composite index jumped 75 to 2,509, well eclipsing the previous high of 2,467 registered on November 3.

BOMBAY saw a resumption of buying by local investors and foreign funds after the cumulative 143-point fall of the previous three sessions. The BSE 30-share index finished 81.91, or 2.6 per cent, higher at 3,251.71.

SEOUL saw a mild, across-the-board consolidation following three days of gains, which left the composite index 3.32 lower at 823.17. Institutional profit-taking focused on blue chips, although individual investors continued to seek out low-price bargains.

AUSTRALIA was helped ahead by the strength of the resources sector, on hopes of a recovery in commodity prices, and the All Ordinaries index climbed 20.3 to 2,073.9.

TAIWAN's weighted index ended 24.57 down at 4,683.60, off a day's high of 4,739.87.

SOUTH AFRICA

Demand for industrial stocks lifted the overall index by 19 to a new high of 4,296, while industrials gained 25 at 4,970. The golds index shed 21 to 1,902. Anglos rose R3.50 to a new peak of R168 and Barlow Rand added R1.50 at R48.50.

Riyadh survives its post war boom and mini-bust

Mark Nicholson on a vigorous Saudi equity market

There are few more lively social spots in a Riyadh evening than the crowded and often sumptuous share trading salons of some of the city's bigger banks. A highly upmarket betting shop might come to mind were such notions not so unislamic.

Directly after the Gulf war the association with gambling was not, however, entirely inappropriate to Saudi Arabia's stock market. Having languished illiquidly throughout most of the 1980s, the market suddenly burst to life on a surge of speculative buying, more than doubling the official index within a year, prompting a flush of new issues and recapitalisations and recording some huge oversubscriptions in the process.

That speculative bubble has since deflated. The index has long since flipped from its record high of 233 in April 1992 and has, for the past few months, settled at a steady and modest level of around 180. And, oddly, it is this which gives bankers and economists in the kingdom such cheer: in a region notorious for investors' propensity for speculative excess, Saudi Arabia's stock market has survived a boom and mini-bust and is still going relatively strong.

Although down from its post-war peaks, the market has developed beyond measure from its pre-war doldrums to become considerably the biggest and most vigorous equity market in the Middle East.

At current prices, the market is capitalised at around $50bn – dwarfing the region's second biggest market in Jordan, where the total value of issued shares is just above $3bn. In sharp contrast to the sleepy bourses in Kuwait or Bahrain, trade is also fast and furious: the 35m shares traded in 1992 were worth more than $3.4bn.

The rush of speculative funds which revived the market is mainly over. This was largely the effect of a huge repatriation of wealth by Saudi investors after the Gulf war, partly out of disappointment at the rewards available in international markets and partly out of renewed confidence at the returns and security of investments available at home.

Some economists estimate that SR30bn ($8.1bn) of private wealth made its way back and, because of the religious opprobrium attaching to interest-bearing instruments, found its home in stocks or property.

On this tidal wave of money (the value of annual transactions rose to SR13.6bn in 1992 from SR4.4bn two years earlier), numerous companies, in particular nine of the joint stock banks, took the opportunity to recapitalise. The subsequent rise in liquidity has given the market a lift and, in general, the number of transactions is now seven times what it was before the war.

The Saudi market has developed beyond measure from its pre-war doldrums to become the region's biggest and most vigorous equity market

But many analysts wonder if the market has reached its natural limit. They point out that while the market is far busier and bigger than any in the region, only about 7 to 10 per cent of issued stocks are actually traded; the remainder tend to rest in the hands of the few wealthy Saudi individuals who dominate the market and effectively serve as market-makers. While they are more content to hold than to trade the bulk of their holdings, the market's growth will be constrained.

New scrip would help, but there are few immediate signs of this. Only three of the kingdom's 2,000 manufacturing companies have so far come to market, and only three companies plan to do so in the near future. This reflects the predominant ownership structure of most enterprises in the kingdom, which tend to be closely held family concerns, with a tendency to resist both the reporting requirements and dilution of ownership entailed in a listing.

Without new paper, trades will also continue to concentrate in just a few leading shares. At present, trade in the eleven listed banks makes up 70 per cent of the daily average trades in all 68 quoted companies – largely due to the flood of shares made available during the past two years' banking recapitalisation. Banks make up six of the market's top 10 capitalised companies.

But in the absence of new listings, some market users believe that the exchange could give itself a further fillip by altering its trading structure. At present all trades must be done through the banks, who are allowed exclusive use of the floorless electronic trading system. A substantial grey market also exists but all informal brokers must deal finally through banking share rooms.

Many believe that the absence of a trading floor is depriving the market of a central arena of information and worsens what they say is already a high propensity to trade on privileged information.

It has been suggested that this is an obstacle to opening the market to overseas investors. But while a number of bankers are beginning to investigate possible vehicles for attracting foreigners, the central bank has shown no signs so far of changing the rules.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY DECEMBER 6 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY DECEMBER 3 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (69)	156.94	-0.3	154.23	106.61	138.31	154.85	-0.3	3.32	155.42	154.60	106.50	139.03	154.34	162.83	117.39	118.47
Austria (17)	180.68	+2.0	178.70	123.52	160.36	160.07	+1.0	1.00	177.17	176.23	121.40	158.48	158.48	184.47	131.16	140.45
Belgium (42)	161.28	+0.9	159.51	110.25	143.04	141.39	+1.1	4.07	156.71	155.88	107.36	139.97	140.13	161.28	131.19	135.63
Canada (107)	132.92	-0.2	131.46	[illegible]	117.88	127.67	-0.4	2.62	133.14	132.44	91.23	119.09	120.13	135.54	111.41	114.28
Denmark (32)	236.70	+1.3	234.17	161.86	209.99	216.15	-0.3	1.05	233.76	232.52	160.18	209.09	215.56	241.06	185.11	183.72
Finland (23)	121.70	+0.6	120.37	83.20	107.94	146.71	+0.0	0.71	121.00	120.35	82.91	108.23	145.71	126.99	65.50	74.70
France (98)	169.44	+1.0	167.58	115.82	150.27	155.75	+0.0	2.98	167.79	166.90	114.96	150.07	155.68	173.06	142.72	147.55
Germany (60)	135.08	+0.9	133.60	92.35	119.81	119.81	+0.1	1.73	133.86	133.15	91.74	119.74	119.74	135.13	101.59	106.61
Hong Kong (56)	391.31	-2.9	387.03	267.51	347.09	388.04	-2.9	2.81	380.11	378.09	260.45	340.02	378.98	394.34	218.68	207.87
Ireland (14)	178.65	+0.1	176.70	122.13	158.45	177.40	-0.4	3.19	178.50	177.55	122.31	159.68	178.06	179.19	129.28	134.87
Italy (70)	64.57	+5.2	63.87	44.14	57.27	81.45	+3.7	2.05	61.40	61.07	42.07	54.92	78.56	70.90	53.76	58.79
Japan (469)	132.02	-3.0	130.57	90.25	117.11	90.25	-3.2	0.91	136.08	135.36	93.24	121.74	93.24	165.91	100.75	104.82
Malaysia (69)	503.50	+2.1	497.93	344.19	446.56	494.97	+1.9	1.41	493.17	490.55	337.91	441.12	485.57	503.50	251.66	271.88
Mexico (19)	2145.87	+2.1	2122.37	1466.99	1903.27	7283.71	+2.1	0.88	2102.23	2091.08	1440.48	1880.41	7132.15	2145.87	1410.30	1594.11
Netherland (26)	194.65	+1.3	192.52	133.07	172.65	169.91	+0.5	3.12	192.07	191.05	131.61	171.81	162.10	197.07	150.39	154.94
New Zealand (14)	63.53	-0.4	62.94	43.43	56.35	61.38	-0.5	3.82	63.81	63.47	43.72	57.09	61.66	68.38	40.56	42.20
Norway (23)	170.89	+1.0	169.01	116.82	151.57	171.18	-0.2	1.49	169.25	168.35	115.98	151.40	171.45	185.10	137.71	140.63
Singapore (39)	321.50	+0.2	317.98	219.79	285.15	236.91	+0.0	1.35	321.01	319.31	219.97	287.14	236.98	332.56	207.04	202.10
South Africa (60)	224.06	+0.6	221.60	153.17	198.72	217.68	+0.5	2.50	222.80	221.62	152.66	199.29	216.58	229.39	144.72	152.62
Spain (42)	134.93	-0.9	133.45	92.24	119.67	143.81	-0.0	4.16	133.83	133.12	91.70	119.71	143.61	145.24	115.23	118.15
Sweden (36)	185.77	+1.4	183.73	127.00	164.77	226.74	+0.1	1.53	183.23	182.26	125.56	163.90	228.53	208.92	149.70	165.31
Switzerland (50)	154.93	+1.6	153.23	105.92	137.43	141.10	+0.4	1.53	152.15	151.34	104.26	136.11	140.50	154.93	108.91	110.90
United Kingdom (216)	196.43	+0.6	194.25	134.28	174.21	194.28	+0.1	3.72	195.21	194.17	133.75	174.60	194.17	196.43	162.00	174.18
USA (518)	189.93	+0.3	187.65	129.85	168.47	189.93	-0.3	2.73	189.31	188.31	129.73	169.35	189.31	191.56	175.38	177.73
Europe (749)	163.14	+1.2	161.35	111.53	144.70	156.78	+0.3	2.90	161.25	160.41	110.50	144.28	156.31	163.14	133.82	137.39
Nordic (114)	180.86	+1.2	178.88	123.64	160.41	191.53	+0.1	1.30	178.68	177.73	122.43	159.82	191.39	194.54	142.13	151.07
Pacific Basin (715)	142.71	-2.2	141.15	97.56	126.58	101.29	-2.4	1.19	145.98	145.20	100.03	130.58	103.82	166.60	105.89	108.85
Euro-Pacific (1464)	151.07	-0.7	149.41	103.27	133.98	122.56	-1.2	1.98	152.20	151.39	104.28	136.13	124.06	162.86	117.26	120.40
North America (625)	186.38	+0.3	184.34	127.43	165.34	185.67	-0.3	2.72	185.81	184.83	127.34	166.23	185.12	187.68	171.51	173.60
Europe Ex. UK (533)	142.24	+1.5	140.62	97.26	126.19	134.77	-0.5	2.37	140.11	139.37	96.03	125.36	134.16	143.73	112.51	115.52
Pacific Ex. Japan (246)	245.03	+1.7	242.35	167.54	217.35	226.66	+1.6	2.61	240.98	239.70	165.15	215.58	223.02	245.12	152.70	148.42
World Ex. US (1650)	152.88	-0.7	150.99	104.37	135.41	125.46	-1.1	1.97	153.69	152.88	105.32	137.48	126.91	162.89	118.51	121.48
World Ex. UK (1952)	161.04	-0.4	159.27	110.10	142.84	140.73	-0.6	2.09	161.67	160.81	110.78	144.62	141.85	168.66	134.22	136.20
World Ex. So. Af. (2108)	163.80	-0.3	162.01	111.99	145.30	144.77	-0.8	2.26	164.29	163.42	112.59	146.97	145.62	170.46	137.29	139.51
World Ex. Japan (1699)	182.56	+0.7	180.57	124.92	161.55	178.58	+0.4	2.75	181.24	180.28	124.20	162.14	177.84	182.56	157.47	159.10
The World Index (2168)	164.12	-0.3	162.32	112.20	145.58	145.58	-0.6	2.26	164.60	163.72	112.73	147.24	146.22	170.88	137.32	139.49

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FINANCIAL TIMES SURVEY

MANAGEMENT BUY-OUTS

Wednesday December 8 1993

The stock market's rise has offered investors an attractive exit route, but created a dilemma for providers of capital, writes **Richard Gourlay**. Divisions of large companies are being floated at p/e ratios above the levels that venture capital backers will pay

Vendors put the price up

Almost every month, the stock market demonstrates the attractions of management buy-outs to the managers involved.

Devro, Holliday Chemicals and Inveresk, which floated this year, all showed dramatic increases in value for investors. To varying degrees, they provide role models for future buy-outs, demonstrating the rewards that can be reaped when managements are freed from the constraints imposed by a parent company.

The failure rate has also been greatly reduced, suggesting that the risks involved are falling. Successful exits of MBOs through flotations or trade sales – the common goal for funders and the liberated management – rose to 24 in the first nine months of the year, compared with 15 during the whole of 1992.

From the venture capital industry's point of view, there have also been rich pickings. Some 48 per cent of the 75 commercial company flotations in the 12 months to June, were funded by venture capital, according to the British Venture Capital Association.

But the UK stock market's rise this year, while providing a more attractive exit route for investors, has also placed the providers of MBO capital in a difficult spot. In the first place, there has been a fall in the number of management buy-out deals that venture capitalists are prepared to fund. As mergers and acquisitions activity has declined, so has the supply of potential MBOs that corporate takeovers tend to generate.

While in 1992 there were 520 MBOs, worth £3.04bn, the year to November 1993 has seen only 390 with a deal value of £2.19bn, according to KPMG. The largest, the £250m buy-out of BP's consumer products division, was a minnow beside the £2.4bn Gateway deal in 1989, and considerably smaller than last year's largest deal, the £400m purchase of Gardner Merchant, the catering group.

What is more, companies wanting to sell a division to raise cash or to pursue the new Holy Grail – concentration on core businesses – have found that they have direct access to the stock market. Divisions of large companies are being successfully floated at p/e ratios significantly higher than the levels that venture capital backers are currently prepared to pay.

Vendors are also becoming more demanding, having seen large increases in the values of companies, often in a relatively short time between MBO and flotation. Some of this increase in value has undoubtedly resulted from an increase in management effort and motivation that direct control inspires. But some of the teams that led recent MBOs were fortunate to be working for companies primarily interested in refocusing their activities. If it meant selling a division to an MBO just as it was on the point of recovering, that was of secondary importance.

That has now changed, and vendors are holding out for higher prices. There are fewer distress sales of divisions to MBO teams, and with the pressure off, some vendors are increasingly getting venture capital suppliers to tender for the opportunity to back the MBO team. The most extreme example was the BP deal, where four venture capitalists competed in a beauty contest.

The second issue facing the venture capital industry is its own funding. Venture capital providers have made a concerted drive this year to raise new funds from their own investors. More than £1bn is probably being sought. All the signs suggest some of the 30 or so institutions raising funds will either not succeed or will raise less than they had targeted. As a result, the market is awash with talk of a shake-out in the industry leading to a concentration of the available funds in fewer hands.

Mr Robert Smith, chief executive of Morgan Grenfell Development Capital, which expects to raise in excess of £200m for a new fund, says casualties are inevitable. "I think there are winners and losers – there will be fewer players and smaller funds than hitherto," he says.

News of the death of smaller venture funds has been exaggerated before. But this time around, the fund-raising will be tough. Back in 1989, a record year for fund-raising, the industry had just enjoyed a wave of MBO exits, first through flotations and then with trade sales. Many venture capital funds boasted impressive internal rates of return to support their marketing efforts. Institutions fell over themselves to invest – at precisely the wrong time in the business cycle, it turned out – and in 1989 alone the industry raised £1.6bn, some £956m for buy-outs, according to the University of Nottingham Centre for Management Buy-Out Research.

With some notable exceptions, the recent record of certain funds has been less impressive. Some of the earlier investments after the 1989 fund-raising were disastrous, while many of the more recent successful buy-outs have yet to exit.

Furthermore, the stock market offers stiff competition. Institutional investors, now having to decide whether to lock up funds in an illiquid venture fund, will be comparing the excellent returns they have recently enjoyed from highly liquid listed investments.

Venture fund raisers accept that they are marketing in a more competitive environment, but argue that the current stock market returns may not persist. And for many of the larger funds, the returns are likely to continue improving as the number of MBOs which are floated or sold, increases over the next 18 months. They are also optimistic about a new source of funding – the US.

"A number of the US state pension funds are beginning to look at international investing," says Stephen Curran, chief executive of Candover which is currently raising at least £200m. Some of these US groups are beginning to see the attraction of placing small percentages of their enormous funds in "alternative assets," Mr Curran says. The UK unquoted sector is particularly attractive. Candover expects to raise about half of its fund in the US – up from the one third it raised from American institutions for its 1989 fund – and recently secured a $30m commitment from Calpers, the Californian pension fund.

If the venture funds are spreading their net wider to raise funds, they will also have to seek deals more actively once they have completed the time-consuming fund-raising round. Some observers suggest that new deal structures will emerge.

One approach, increasingly favoured by 3i, but likely to gain greater currency, is the Bimbo – the buy-in and management buy-out, where internal management expertise is married with a team brought in by the MBO funder.

There may also be a return to higher ratios of debt-to-equity financing in buy-outs, as the economy recovers and financiers become prepared to take more risks. No one foresees a return to the dizzy levels of the US-style leveraged buy-outs of the late 1980s, which were, in any case, rarely attained in the UK, but having fallen to a ratio of a little over one to one, there is room for gearing to rise.

"The UK economy is moving in the right direction, so it is a safer time to put on gearing than at any time in the last three years," says Mr Hugh Mumford, at Electra.

A modest increase in the financial risk of MBOs would be acceptable, particularly as the business risk appears to have fallen quite sharply. The first nine months of this year saw a dramatic fall in MBO failures to just three, from nine in 1992, according to KPMG.

This may reflect the recent more conservative approach to pricing and gearing. But as the economy emerges from recession and it becomes easier to predict business performance, the funders of MBOs may have to accept lower returns or risk becoming uncompetitive.

Deals gather pace in eastern Europe

The past year has seen an acceleration in regulated buy-out activity in a number of countries across central and eastern Europe.

Though many deals are being processed in the former East Germany, the the privatisation agency closely scrutinises each transaction in an attempt to ensure that buy-outs are placed on a sound financial footing.

In Russia, buy-outs are now taking place in large numbers, but without such close monitoring of the process. *See Page XII*

ALSO IN THIS SURVEY

☐ *Illustration: Robin MacFarlan*

Richard Gourlay examines the factors that divide participants

A shortage of capital may compel smaller funds to merge

British Venture capital institutions have enjoyed the best of times and the worst of times in the management buy-out market over the past year.

Not since the boom period in the mid 1980s have so many of their investments provided them with an exit, either through a trade sale or flotation.

On the other hand, MBO funds are seeing fewer financeable deals, and a number of funds are struggling to raise fresh capital. Without fresh capital, some of those funds that are not "captives" – financed by pension fund or bank parents – are likely to have to consider merging, leaving the MBO market served by fewer, possibly stronger, venture funds.

So which institutions have fared best in the MBO industry? And which financiers will lead the field over the next few years?

Increasingly, MBO financiers are splitting into those groups that are prepared and able to finance large deals, and those that are not. The industry broadly defines "large" as deals requiring more than about £10m of equity, for companies capitalised at £35m or more – although many of these larger funds would also look at smaller deals.

Any list of the big hitting deal arrangers in the last three years would include Candover Investments, CINVen, Charterhouse Development Capital, Morgan Grenfell Development Capital, CVC, Electra and Prudential Venture Managers.

It was CINVen that led the only really large deal of recent years – the buy-out of Gardner Merchant from Forte, in 1992, for £400m. A relative newcomer to the big time, Legal & General, led this year's second largest deal, the £272m purchase of the consumer products division of BP.

The second tier – as measured by a preferred deal size around £10m – is dominated by 3i, the UK's largest investment capital institution, although the institution has been taking a larger share of deals of up to £50m.

"We have taken more of those deals in the last three years, because we have done a lot more through our regional network, which we think has given us a competitive advantage," says Mr Ewen Macpherson, 3i chief executive.

With 18 offices around the UK, the only competitor who comes anywhere near in terms of regional representation is NatWest Ventures. In fact, like 3i, NatWest Ventures is increasingly interested in the larger deals, and led as many deals as Electra in the past year, according to KPMG.

The other big hitters in the second tier include Schroder Ventures, Kleinwort Benson, Midland Private Equity, Murray Johnstone, Phildrew Ventures, Apax, ECI Ventures, and Barclays.

In terms of numbers, however, 3i stands way out in front at the smaller end of the market. According to KPMG Peat Marwick Corporate Finance, 3i, since 1981, has led more than twice as many deals as its nearest rival, Candover. The average size of these deals, however, is less than half those led by Candover and a third those led by CINVen.

A similar pattern emerges in the growing management buy-in market. The institution maintains a list of 150 managers who are prepared to invest and take executive management positions in companies. From a standing start, 3i did 70 MBIs last year, and has about 40 per cent of the market.

Many of these institutions in both tiers of the market, other than captive funds like CINVen, are actively seeking funds. Over the next six months, the funds are likely to reveal the extent to which they have succeeded.

Deal leaders: October 1 1992 - September 30 1993

	Number of deals	Total funding (£m)	Average value (£m)	Number of investors
3i	7	154	22	8
Electra	5	258	52	7
NatWest Ventures	5	231	46	9
CINVen	3	460	153	7
Granville	3	59	20	3
CVC Capital Partners	2	59	30	2
Schroder Ventures	2	55	28	3
Phildrew Ventures	2	68	34	2
Prudential VM	2	202	101	6
Legal & General Ventures	2	306	153	3
Candover Investments	1	17	17	3
Charterhouse DC	1	73	73	[illegible]
Montagu Private Equity	1	11	11	7
Barclays DC	1	35*	35	4
Kleinwort Benson DC	1	12	12	2
Morgan Grenfell DC	1	20	20	4
Baring Capital Investors	1	205*	205	2
Brown Shipley Venture Mgrs	1	33*	33	2
Royal Bank of Scotland	1	14	14	1
Gartland & Whalley	1	24	24	1
Henderson Venture Mgrs	1	16	16	1
Investcorp	1	200	200	1
Donaldson Lufkin Jenrette	1	22	22	1
Apax Partners	1	15	15	1
Close Investment Capital	1	11	11	1
Commercial Union				3
Citicorp				3
Phoenix Fund Mgrs				2
Ontario Teachers Pen. Plan				2
North England VC				2
Causeway Capital				2
Others/no longer active/ none/not known/ (duplication)	-5	-105	21	
Total	43	2,454	57	

Qualification: £10m-plus deals, 1 deal led or 2 investments made. *estimated value. Source: KPMG Corporate Finance

Use of mezzanine finance on UK MBOs over £10m

Date	MBOs using mezzanine: Number	Amount of Mezzanine £m	Total Value of Deals £m	Total MBOs: Number	Total Value of Deals £m	% of MBOs using mezzanine	% of deal covered by mezzanine	Ave size of mezzanine layer £m
1981-84	0	0	0	25	657	0	0	0
1985	5	123	430	23	889	22	29	25
1986	7	96	380	27	935	26	25	14
1987	13	207	1,510	33	2,753	39	14	16
1988	26	280	1,872	55	4,606	47	15	11
1989	38	864	4,826	71	5,851	54	18	23
1990	33	214	1,143	59	2,038	56	18	6
1991	16	132	883	44	1,980	36	15	8
1992	13	96	749	55	2,319	24	13	8
1993*	8	54	588	33	1,531	24	9	7
	159	2,066	12,380	425	23,846	37	17	13

* To date. Source: KPMG Corporate Finance

Deal leaders: May 1981 - September 30 1993

	Total No.	£m	Av val £m	No of inv	Address and phone number	
3i	57	1,612	28	106	91 Waterloo Road, London, SE1 8XP	071-928-3131
Candover Investments	27	1,874	69	52	20 Old Bailey, London, EC4M 7LN	071-489-9848
NatWest Ventures	24	892	37	64	135 Bishopsgate, London, EC2M 3UR	071-375-5000
Charterhouse DC	23	2,723	118	62	65 Watling Street, London, EC4M 9BJ	071-248-4000
CVC Capital Partners	23	752	33	25	Hudson Hse., 8-10 Tavistock Street, London, WC2E 7PP	071-234-5678
Schroder Ventures	22	809	37	31	20 Southampton Street, London, WC2E 7QG	071-632-1000
CINVen	20	1,940	97	94	Hobart Hse., Grosvenor Place, London, SW1X 7AD	071-245-6911
Montagu Private Equity	18	887	49	69	10 Lower Thames Street, London, EC3R 6AE	071-260-9511
Phildrew Ventures	16	456	29	41	Triton Court, 14 Finsbury Square, London, EC2A 1PD	071-628-6366
Electra	13	1,285	98	54	65 Kingsway, London, WC2B 6QT	071-831-6464
Bankers Trust	14	1,823	130	20	1 Appold Street, Broadgate, London, EC2A 2HE	071-982-2500
Barclays DC	13	349	27	47	Pickfords Wharf, Clink Street, London, EC1Y 4XX	071-407-2389
Granville	13	204	16	13	Mint Hse., 77 Mansell Street, London, E1 8AF	071-488-1212
Kleinwort Benson DC	11	553	50	32	10 Fenchurch Street, London, EC3M 3LB	071-956-6600
Prudential VM	9	605	67	59	Audrey House, Ely Place, London, EC1N 6SN	071-831-7747
Legal & General Ventures	7	482	69	40	3 Queen Victoria Street, London, EC4N 8EL	071-489-1888
Lloyds DC	7	392	56	40	48 Chiswell Street, London, EC1Y 4XX	071-860-3228
Morgan Grenfell DC	7	472	67	15	23 Great Winchester Street, London, EC2P 2AX	071-588-4545
Murray Johnstone	7	99	14	25	7 West Nile Street, Glasgow, G1 2PX	041-226-3131
Baronsmead	6	141	24	22	Clerkenwell Hse., 67 Clerkenwell Road, London, EC1R 5BH	071-242-4900
Mercury Asset Management	6	2,722	454	31	33 King William Street, London, EC4R 9AS	071-280-2800
Causeway Capital	5	95	19	12	7 Hanover Square, London, W1R 9HE	071-495-2525
Foreign and Colonial	5	102	20	18	8th Floor, Exchange Hse., Primrose Street, London, EC2A 2NY	071-782-9829
Apax Partners	4	166	42	10	15 Portland Place, London, W1N 3AA	071-872-6300
Chase Manhattan	4	240	60	6	Woolgate Hse., Coleman Street, London, EC2P 2HD	071-962-5000
Scandinavian Bank	4	77	19	5	Scandinavian Hse., Cannon Street, London, EC4M 6XD	071-236-6090
Swiss Bank Corp	4	144	36	4	1 High Timber Street, London, EC4V 3SB	071-329-0329
First National Bank of Boston	3	65	22	11	39 Victoria Street, Westminster, London, SW1H 0ED	071-799-3339
Baring Capital Investors	3	654	218	7	140 Park Lane, London, W1Y 3AA	071-408-1282
CIBC Capital	3	50	17	3	Cottons Centre, Cottons Lane, London, SE1 2QL	071-234-6000
Gartmore	3	32	11	9	16-18 Monument Street, London, EC3R 8QQ	071-782-2000
Hambros	3	64	21	5	41 Tower Hill, London, EC3N 4HA	071-480-5000
Robert Fleming & Co.	3	221	74	6	25 Copthall Avenue, London, EC2R 7DR	071-638-5858
Salomon Brothers	3	80	27	3	111 Buckingham Palace Road, London, SW1W 0SB	071-721-2000
SUMIT	3	42	14	15	Edmund Hse., 12 Newhall Street, Birmingham, B3 3EJ	021-200-2244
Bank of Scotland	2	48	24	8	PO Box No12, Uberior Hse, 61 Grassmarket, Edinburgh, EH1 2JF	031-442-7777
Close Investment Capital	2	22	11	8	36 Great St. Helen's, London, EC3A 6AP	071-283-2241
Hambro Magan	2	292	146	2	32 Queen Anne's Gate, London, SW1H 9AB	071-233-1400
James Capel	2	58	29	2	Thames Exchange, 10 Queen's Street Place, London, EC4R 1BL	071-283-6239
Unity Trust	2	33	17	3	130 Minories, London, EC3N 1NT	071-481-3110
ECI Ventures	1	12	12	21	Brettenham Hse., Lancaster Place, London, WC2E 7EN	071-606-1000
Standard Chartered	1	125	125	12	1 Aldermanbury Sq., London, EC2	071-280-7500
Sun Life				24	107 Cheapside, London, EC2V 6DU	071-606-7788
Commercial Union				12	St. Helen's, 1 Undershaft, London, EC3P 3DQ	071-283-7500
Scottish Eastern Inv				11	Saltire Court, Edinburgh, EH1 2ES	031-229-8252
Others/ no longer active/ none/ not known/ (duplication)	18	-44				
Total	425	29,845	56			

Qualification: £10 million plus deals, 2 deals led or 10 investments made. Source: KPMG Corporate Finance

Estimates vary, but somewhere between 30 and 40 venture capital groups appear to be trying to raise new funds. Some industry observers say the funds are seeking about £1bn of new money. Typically, the funds are turning to large US pension funds and insurance companies, which are identified as having an appetite for some exposure to the unquoted UK investment.

Not all are going to be successful, and some consolidation is likely within the industry with increasing specialisation, according to Mr Iain Tulloch, of Murray Johnstone.

Some of the smaller funds will not have done as well as their larger counterparts, and may have difficulty attracting capital to a new fund. With the fees that arise from running a fund, they may need to seek a merger.

TSB Group has already showed that it no longer gives MBOs high priority, by its decision to put Hill Samuel Development Capital up for sale.

Then there are the banks which provide the debt, without which few management buy-outs would get off the ground. Mr Chris Beresford, partner at KPMG Peat Marwick Corporate Finance, says National Westminster and the Bank of Scotland lead the field, ahead of Midland and Barclays.

"These four have carried the market through since 1990," he says. "The rest have been almost nowhere."

Citibank, Canadian Imperial Bank of Commerce and Westpac were among those that appeared to leave the market in 1990, after the last bout of excesses.

Some MBO industry observers say the banks are displaying a renewed interest, in particular for the larger deals, and that some are showing signs of returning to the market. The Royal Bank of Scotland has signalled its intentions very clearly by luring Leith Robertson, one of the Bank of Scotland's senior management buy-out specialists, to become its corporate director in charge of MBOs and acquisition finance.

If the banks are showing greater interest in lending and new entrants may be about to compete with the big four, the chances are that gearing levels are likely to rise.

In the late 1980s flurry of MBO financings, gearing rose sharply with a commensurate increase in risk. With the onset of recession, the amount of available debt and bank willingness to lend shrank markedly.

That appears to be changing. "Equity within deal structures is reducing, with equity now being 40-50 per cent, compared with more than 60 per cent two years ago," says Mr Barrie Moore, of NatWest Ventures.

This is a clear sign of renewed confidence, both in the economy and in the profitability of MBOs. But many voices continue to warn against deal structures which load unacceptable levels of debt on to managements, on the assumption that interest rates will remain low. If history repeats itself, they will not.

Buy-ins have declined, but Bimbos continue to rise, says **Peter Carty**

A change of strategy at 3i

Is the pure management buy-in becoming extinct? It has fallen out of favour over the last couple of years, after research and performance reviews showed that it tends to be outperformed by buy-in/management buy-outs (Bimbos).

A review of the performance of 154 buy-ins was conducted by 3i in early 1991. "If the person buying in was involving the management, they were usually better informed about the business," says Mr Patrick Dunne, head of 3i's buy-in programme. "They usually got on better, because they were involving the management within in their plans," he adds.

Buy-in strategy at 3i has altered accordingly. While still placing substantial emphasis on buy-ins – it backed 15 of the 38 deals in this year's first half – the focus has shifted. Two and a half years ago, around 20 per cent of the buy-ins it backed were Bimbos. The figure has since grown to between 65 and 70 per cent.

Pure MBIs remain as a third of deals. According to Mr Dunne, they can be lucrative. "You still have situations where a talented md will go into a business and move it forward, take a fresh view and re-energise it," he says. A common misconception is that most buy-ins are turn-arounds. "They're mostly people buying into companies which are doing all right, but could do a lot better."

In August, for example, a pure buy-in team acquired Unimerchants, a £18m-turnover importer and distributor of Mediterranean food. "It was a profitable business, but it was not as well managed as it would be, in our view, by ourselves," says Mr John Durban, leader of the three-man team. He thinks that former parent Albert Fisher Group could not give it the attention it needed. The team is concentrating on rapidly-growing niche markets, notably high-quality imported pasta and olive oil products.

A strong record is usually needed to attract backing for an MBI. Mr Durban has already run two sizeable food businesses: Procter & Gamble's European food processing, catering and bakery division, as well as £200m-plus turnover edible oils company Acatos & Hutcheson.

No equity was allocated to the incumbent management. Albert Fisher Group's policy is not to encourage its managers to participate in buy-outs. Mr Durban says equity participating might be possible for some of the incumbent team later on.

Institutions and advisers can be more cautious when a team lacks hands-on experience of the company. The Unimerchants MBI took almost a year to arrange, and was probably more protracted than an equivalent MBO.

A classic problem with many buy-ins is the discovery after acquisition of skeletons in the company closet. The Unimerchants team found dinosaurs. "They seemed to think it would be a wonderful idea to introduce a pasta in dinosaur shapes," explains Mr Durban. Fortunately, the surplus stock does not present a great problem.

The pace of buy-ins for much of this year has been slower than in 1992, with only 38 deals in the first half, against 134 for the whole of last year, according to Nottingham University's Centre for Management Buy-Out Research (CMBOR).

The value of deals struck appears to be holding up well, with transactions worth £397m in the first half, against last year's final total of £679m. However, when this year's monster £250m buy-in deal of BP Nutrition's consumer products division (*see below*) is stripped out, the adjusted first-half total of £147m is much less promising. According to CMBOR, divestments declined to 19.5 per cent of deals in the first half, while buy-ins from receiverships grew to 19.4 per cent of transactions.

Mr Dunne says a lack of confidence in the economy held bidders and vendors back in the early part of the year; but now the situation is looking more promising: he has noticed a pick up since September.

Family-owned businesses remain a key source of buy-in deals. Their proportion of total deal value fluctuates from year to year, but, according to CMBOR's statistics, they have yielded a steady 44 to 52 per cent of deals over the 4½ years to the end of June.

Buy-ins of family companies often arise due to succession problems. Mr Nick Theakston, a partner in KPMG Corporate Finance, thinks a Bimbo bringing in new top management to graft on to existing non-family senior management can be a good solution. However, he highlights a difficulty with these deals: "Family businesses have a huge amount of emotion involved in them."

His latest big family deal came earlier this year, when he advised on a £21m Bimbo of Maiden Outdoor Advertising. Mr Ian Maiden relinquished his post as chairman of the Liverpool-based company after 39 years. The buy-in team was assembled and led by Mr Ron Zeghibe, fresh from putting together a turn-around of Dutch advertising company Mediamax.

The Bimbo involved four of the existing management as well as three outsiders. Luckily, there was no family strife. "Ian Maiden was extremely level-headed and sensible about it," says Mr Theakston.

Around 200 would-be buyers-in are registered on 3i's MBI programme, and roughly half the deals it backs draw on the pool. Talent-spotting has been easier recently. "If you're running and performing well in a recession, then you're probably going to do even better in a good time," says Mr Dunne. As well as training potential buyers-in, the programme helps 3i to get their measure. "We seem to do a lot better when we back people we know," he says.

The Bimbo is no longer the leading-edge buy-in. According to Mr Dunne, 3i is now placing a lot of emphasis on the "Chimbo" – a variant of the Bimbo, in which investing chairmen buy companies in tandem with the existing management team. The chairmen bring the benefit of experience to bear, on a part-time basis.

As well as chairmen from its buy-in pool, 3i can draw on its tranche of 300 independent directors. "Those people have been particularly powerful with younger companies, and we see a future for the angel that not only adds some money but also adds talent," says Mr Dunne.

The Stead & Simpson Bimbo: case study – Page VII

Management buy-ins over £10m

Company	£m
Under 25m	**£m**
1985 Cullens	10
1986 Acal	10
1987	
Life Sciences Intl	11
New Scotland Ins	15
1988	
Burn Stewart	13
Autoclenz	13
Claimont	14
European Brands	21
1989	
Range Valley	11
Abacus	11
Maison Caurette	11
Haigh Castle	12
Severn	13
Country Casuals	14
Valor Stoves	14
British Air Ferries	15
Hill Leigh	15
Exide Batteries	16
Britannia Data Mgt	18
Service Tec	20
Thames Intl	22
Rubetex	22
Hamleys	24
1990	
Wilcox	10
Fairmead	10
Anglian Fast Foods	10
Juliana Sound	11
E. Lancs Paper Mill	11
Cannons Sports Club	14
Hermes	14
Lydiashourne	15
Canonbury	15
Betta Stores	16
Wimpy	20
1991	
Ambion Homes	10
Bianco	11
Boythorpe	11
Drawlane	12
Wallace Intl	12
Sitex Security Prods	15
Eagle Taverns	17
BrightReasons	18
Bramall Dealerships	15
1992	
Audio & Vision Furniture	10
CCA Stationery	14
Chamberlain Phipps	14
Harrison Industries	14
Discovery Inns	20e
RSA Advertising	23
1993	
Coin Controls Group	24
Benjamin Priest	20e
Maiden Outdoor Advertising	20
25m-50m	**£m**
1986	
Gillow	45
1987	
Raleigh	42
1988	
Lilley	27
Needwood	38
1989	
Beacon	29
Court Cavendish	35
1990	
Ravenhead	27
United News Shops II	33
Walter Alexander	42
David Brown	46
1991	
Lyric Hotels	26
Century Inns	34
1992	
Centric Pubs	29
Inspec Group	45
Marr Holdings	30e
Sycamore Taverns	35e
1993	
Hydron	27e
50m - 100m	**£m**
1987	
Utd Precision Ind	76
1988	
Financial Ins	55
Lewis's	74
1989	
Crockfords	53
Square Grip	69
James Neill	79
1991	
Enterprise Inns	56
Ushers of Trowbridge	75
Pavilion Services	95
1992	
Unicorn Abrasives	56
Teeside Holdings	63
1993	
Multipart	56e
Colas	72
Over 100m	**£m**
1982-84	
Kingfisher	310
1988	
Cope Allman	265
Lowndes Queensway	450
1989	
Gateway	2,375
1990	
Jarvis Hotels	215
1993	
BP Con Prod Div	273

Incorporates MBIs and Bimbos. e=estimate

Source: KPMG Corporate Finance

Case study: the BP consumer products buy-in

Shared costs help L&G to win

In the early hours of Wednesday, May 26, contracts were finally exchanged on the sale of BP Nutrition's consumer products division to a management buy-in team led by Legal & General Ventures, in a deal worth £272m.

The transaction was significant, not only because of its size – it still ranks as the biggest unquoted equity deal this year – but also because it was one of the most fiercely contested with no fewer than four teams bidding for the mandate.

BP put the whole of BP Nutrition, with annual sales of £2.9bn, on the auction block early in 1992, as part of the drive to refocus on its core oil and gas businesses and cut debt.

The consumer foods division was was sold to Sara Lee, the US group, at the end of December. By that stage, the consumer products division, a leading supplier of "own label" household detergents, cleaners and personal care products to European supermarkets, was also attracting considerable City attention.

Consumer products includes Manchester-based Robert McBride in the UK, Ypion in Belgium and Solaro in Italy. Its 12 factories employ more than 4,000 people and although profits have not been disclosed, its margins on turnover of £280m last year are believed to be high.

"We started looking at consumer products way before the deal was done," said Mr Adrian Johnson, a director of Legal & General Ventures, which put the winning consortium together.

The Legal & General Ventures-led consortium was one of four preferred bidders, whose names were shortlisted by SG Warburg on behalf of BP at the start of 1993 to enter the final round. The three others were led by Phildrew Ventures and Citicorp Venture Capital; Electra, working with the Canadian trade buyer, CCL; and Mercury Asset Management, with Montagu Private Equity.

Over the next two months, all four bidders undertook due diligence while negotiating with potential financial partners and putting together their final teams.

As Mr Charles Peal, managing director of Legal & General Ventures, points out, one of the consequences of the competitive auction procedure was that the unsuccessful bidders ran up "seven-figure costs" conducting due diligence. Mr Peal said Legal & General Ventures limited its own downside risk to £30,000 by sharing costs with its three other equity partners, and by tying some of the fees to success of its bid.

When the sealed final bids were opened in early April, three of them, including Legal & General Ventures, are believed to have been around the same level, with the fourth bid lagging some way behind.

But the Legal & General Ventures team believe the unified structure of their consortium, and the fact that they had already signed-up Mr Michael Handley, the former divisional managing director of RHM, to become managing director of the new company, gave them a decisive edge.

"Our transaction was a genuine management buy-in," said Mr Peal, "that gave us a lot of credibility." In addition, the consortium persuaded Sir Allen Sheppard, chairman and chief executive of Grand Metropolitan, the food and drinks group, to lead the buy-in team by becoming non-executive chairman of off-the-shelf company formed to complete the purchase – Templeco Sixteen.

On April 6, the Legal & General Ventures team were summoned back to BP headquarters and told they had just a three-week exclusivity period to get the funding for the deal in place, tie-up the the paperwork and agree the sale.

Those weeks were extremely hectic for Mr Johnson and his Legal & General Venture colleagues, Paul Southwell and Ivan Heywood; and they were made worse when, two days into the exclusivity period, the Bishopsgate bomb demolished the offices of Norton Rose, the lead banks' solicitors, and the offices of Phoenix Fund Managers, one of the equity partners.

BP, says Mr Johnson, was sympathetic, but did not formally extend the deadline. Nevertheless the complex transaction – involving equity, bank and mezzanine debt – eventually went ahead, albeit a little later than originally planned.

The deal was structured as follows:

■ **Equity:** The bulk of the £115m in equity funding for the deal was provided by Legal & General Ventures (£50.5m) and its trans-Atlantic partner, Lehman Brothers (£50.5m). The £14m balance came from Phoenix Fund Managers, Ontario Teachers Pension Fund and Barclays Development Capital. Legal & General Venture subsequently sold £22m of equity to one of the major UK venture capitalists. Following the deal, management will also be invited to become shareholders with up to a 10 per cent equity stake.

■ **Bank Debt:** A syndicate of four banks, led by the Bank of Scotland's Edinburgh team (the Bank of Scotland's London team backed another of the bidders), underwrote £115m of senior debt. The other main underwriters were Bank of Tokyo, Barclays and Morgan Grenfell.

■ **Mezzanine Debt:** A further £30 of mezzanine financing was provided by Mithras, an investment trust managed by Legal & General Ventures, and co-underwritten by Intermediate Capital Group.

In addition, the banking syndicate provided £12m of working capital.

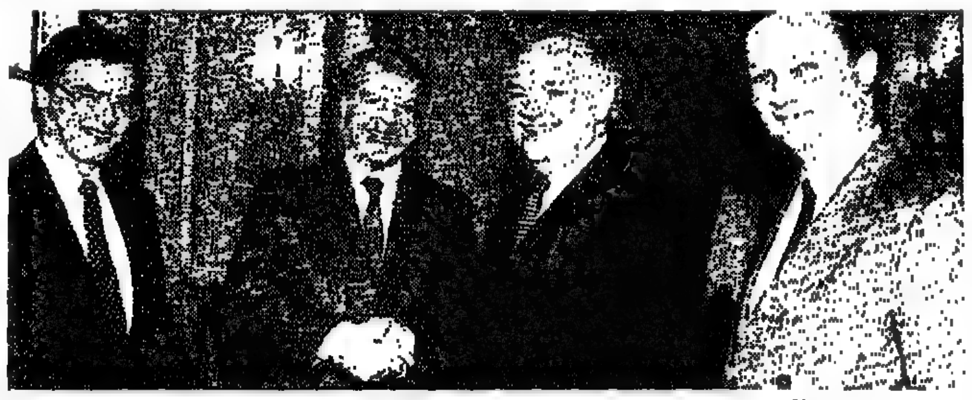
Since completing the buy-in, the Legal & General Ventures team has provided much of the senior management at the new company, with Mr Ivan Heywood acting as locum finance director until the arrival of Mr Terry Monks from MB Caradon.

Now, the prime objective is to build the business from its current base in order to float it on the stock exchange in about three years.

The BP consumer products buy-in has also generated some controversy. Some critics maintain that it demonstrates that the dearth of big quality deals is forcing financial buyers into unhealthy competitive auctions, pushing target prices up while increasing investor risks and reducing returns.

However, Charles Peal, of Legal & General Ventures, thinks the deal was one-of-a-kind. "We had been through a period when a lot of the competition had not done a large deal for a long time," he said. Although he believes some buy-in/out opportunities will generate competing bids, he thinks most market players would think twice now before entering another four-way bid-battle.

Paul Taylor



The winning team (from the left): Adrian Johnson, Michael Handley, Sir Allen Sheppard and Charles Peal

'Exits' remain hard to find, says **Charles Batchelor**

Sales are likely to rise

A successful buy-out team seeking to raise new funds has had little choice in recent years. Its only real option has been to sell out to a corporate buyer, and face losing the independence which made the buy-out an attractive idea in the first place.

But the past 12 months have seen a considerable change in investors' attitudes, and the number of former buy-outs obtaining a stock market listing has risen sharply. Buy-out companies accounted for one in five of all new companies coming to the stock market in the first six months of 1993, the highest proportion ever.

Nottingham University's Centre for Management Buy-Out Research recorded 13 flotations of buy-out and buy-in companies in the first six months of 1993, compared with 11 in the whole of 1992 and four in 1991.

The main reason for this change in sentiment has been the far more positive view now taken of smaller company shares. Smaller companies performed poorly in the depths of the recession, but are now expected to return to above-average levels of growth.

This has meant that buy-out companies have been able to command attractive price/earnings ratios, typically around 17 or 18, at listing.

At the same time, corporate buyers, which in recent years have been able to pay highly to acquire buy-out companies, have withdrawn from the bidding. Many have been devoting all of their energies to surviving the recession, and have had little time to devote to acquisitions.

> While failure rates among buy-outs have declined, receivership remains the single most common form of 'exit'

Welcome though this increase in the number of listings is, there is still a long way to go before new-issue activity matches the levels attained in the mid-1980s. In 1986, 37 buy-out/buy-in companies went to market, while in the following year there were 35 listings.

And while failure rates among buy-outs have declined over the past year, receivership remains the single most common form of "exit". No fewer than 41 buy-outs failed in the first six months of 1993, compared with 28 trade sales and 13 flotations, according to the MBO research centre. Receivership numbers began rising sharply in the late 1980s, to peak at 121 in 1991.

Despite the emphasis which venture capitalists place on finding an exit opportunity, remarkably few buy-outs have achieved one over the past decade or so. Even when receiverships and refinancings (second round buy-outs or buy-ins) are included, only 23 per cent of the buy-outs completed between 1981 and 1991 obtained an exit. Ten per cent went to trade buyers, while 4.4 per cent were floated.

This indicates that a large "rump" of buy-outs remain under the control of the managers who acquired them. Many will be small buy-outs financed largely by bank debt, where there is no great pressure to achieve an exit, or companies where the managers own most of the equity. Others will have shown a mediocre trading performance, and would not obtain an attractive price if they were put up for sale.

Despite this surprising failure on the part of the buy-out industry to achieve exits, there is likely to be increasing pressure over the next few years. As many of the 10-year venture capital partnerships set up in the early and mid-1980s come to the end of their lives, their managers will need to realise their investments. This could lead to an increase in the sale of businesses.

The growing trade in second-hand venture capital portfolios is likely to speed up this trend. The manager who made the original investment, but now sees it on his books at a lower valuation, will be reluctant to crystallise his loss. If the portfolio is sold, the new manager can review each investment more dispassionately and take a decision to sell when necessary.

Many of the companies which obtained a stock market listing in the late 1980s turned out to be too small to attract much investor interest. They were neglected by analysts and market makers alike, and there was little liquidity in their shares.

Some of the recent buy-out flotations have been of more substantial businesses. Devro, a maker of sausage skins, was capitalised at £224m; Holliday Chemical Holdings at £161m; and RJB Mining at £103m. But a surprising number have still been small. Of 36 venture capital-backed companies floated in the year ended June 1993 (half of them buy-outs), nine were capitalised at less than £20m, while 11 were valued at between £20m and £50m, according to the British Venture Capital Association.

In contrast to the revival of investor interest in new issues, the London Stock Exchange has announced plans to dismantle the Unlisted Securities Market in 1996. The USM did well during the boom years of the late 1980s, but more recently has suffered from a negative image.

On top of this, the loosening of regulations governing the main market has reduced the need for a separate set of rules for the newer company. Meanwhile, in continental Europe, many of the secondary markets set up in imitation of the USM, have failed to establish viable trading volumes.

But although it is now easier to obtain a main market listing in London, the venture capital industry and many City organisations are keen to maintain a facility for listing the smaller company. They have put together an organisation known as the City Group for Smaller Companies to lobby for their interests.

The European Venture Capital Association, for its part, plans to put proposals to the European Commission for a market for venture-backed companies, though it is not yet clear whether this will be on a Europe-wide basis or with a national focus.

The creation of an efficient market for trading in the shares of smaller companies is vitally important for the venture capital industry. As part of its efforts to reinforce the status of venture capital, it is currently attempting to persuade the institutions to treat such investments as a separate asset class. A successful record of achieving exits is vital if it is to achieve this goal.

Deal structures

Relief as the banks return

After the excesses of the late 1980s, the past few years have seen power in the structuring of management buy-out deals shift back to the banks. They have become much more cautious in their approach to buy-outs, and stipulate more conservative lending ratios.

This insistence on proper cover for their loans has not prevented the banks becoming slightly more willing to provide the funds that are needed. "The banks have come back into the market, and there is more debt available now than there has been for the past three years," commented Mr Graham Hutton, a director of Morgan Grenfell.

This increase in liquidity is a relief to the venture capital industry, which had begun to fear that shortages of loan finance would seriously limit the profitability of deals. Unless the equity providers can gear up their funds with loan finance, the returns become unattractive. Some venture capitalists feared at one stage that deals were becoming "under-geared".

The banks will normally require an equity to debt ratio of 1:1 though some are prepared to move to 1:1.5 on the more attractive deals. But contrast this with the peak of the buy-out boom in 1989, when the banks were willing to provide loans amounting to nearly six times the equity in a deal. These times were unusual, however, and the figures were skewed by a small number of very large deals.

The smaller deals, which account for most buy-out activity in terms of numbers, have always been more conservatively structured. The two-tier nature of the buy-out sector, and its impact on the way deals are done, is revealed in recent research by Nottingham University's Centre for Management Buy-Out Research.

Smaller deals, those valued at less than £10m, have seen a drop in the amount of equity and mezzanine finance used, while the amount of debt has remained steady. The gap left by the decline in equity and mezzanine has been made up by increases in the amount of vendor loan notes and in the contribution made by the management team. The amount of equity in these smaller deals has fallen over the past two and a half years, from more than 40 per cent to just over 33 per cent, while the contribution of debt has hovered around 40 per cent.

Vendors contributed nearly 11 per cent to the value of deals in the first half of 1993, compared with around 7 per cent in the previous three years. This was the highest share held by vendors since the buy-out centre, established in 1986, began compiling these statistics.

The attraction to a vendor of retaining a stake in a buy-out company is that it will benefit if the company does well. Vendors are concerned that they will look foolish if a business which they have sold prospers, particularly when the deal is done at a stage when the economy seems set for recovery from a long recession. Vendor involvement can also boost the nominal value of a deal, and make a sale appear more impressive to shareholders.

Managements, too, have been increasing their stake in the businesses they buy. The average management contribution to smaller deals rose to 9.5 per cent in the first half of 1993, from between 7 and 8 per cent in the preceding three years.

Larger deals, those valued at more than £10m, have traditionally been financed by larger amounts of debt, though the gap between debt and equity has closed in the past two years. Equity accounted for less than a quarter of total funding in large deals in 1991, but rose to around one-third in 1992 and early 1993.

The contribution of mezzanine and debt has held steady at about 6 per cent and 45 per cent respectively. As deal prices have fallen to more realistic levels there has been less need to bridge the gap between debt and equity with large amounts of mezzanine finance. Involving an independent mezzanine provider can also complicate a deal, so venture capitalists have sometimes preferred to turn to the vendor if extra funds were needed. But this did not stop the contribution by vendors to larger deals halving in the past two and a half years, from 15 per cent in 1991 to 7.5 per cent in the first half of 1993. The management's contribution fell to just 1 per cent, the lowest level for more than four years.

As the banks have become more experienced at financing buy-outs, so their assessment methods have been refined. There has been a shift from judging deals on balance-sheet ratios, which are not necessarily the most relevant measure when a business is about to undergo radical change.

The banks now look more closely at projected cash flows and interest cover. The recent drop in interest rates has meant that banks can now obtain interest cover of 3:1 on buy-outs, a rate as good as they could obtain on corporate credits. The decline in the use of mezzanine finance has had the additional effect of boosting the security of senior debt.

The banks have also become less willing to leave due-diligence work to the providers of equity capital, and are now more likely to commission their own reviews of a company's finances and market prospects.

Charles Batchelor

Leading debt arrangers: May 1981 - September 30, 1993

	Total number	Total debt £m	Av Value of debt £m	Total No of investments
Bank of Scotland	82	1,452	18	140
NatWest	71	1,958	28	102
Barclays/BZW	46	840	18	74
Midland/Samuel Montagu	35	735	21	58
Bankers Trust	20	1,637	62	22
Standard Chartered	18	1,001	56	39
Royal Bank of Scotland	16	387	24	28
Bank of America	10	347	35	22
Lloyds	8	91	11	24
Citibank Citicorp	8	620	78	13
Kleinwort Benson	6	144	24	15
3i	5	28	6	29
Charterhouse	5	429	86	12
Morgan Grenfell	5	125	25	11
S G Warburg	5	2,039	408	5
Chemical Bank	4	1,430	358	8
Continental Bank	4	87	22	5
Scandinavian Bank	4	59	15	4
CIBC Capital	3	25	9	15
Credit Agricole	3	47	16	15
N M Rothschild	3	52	17	8
Den Norske	3	21	7	7
TSB	3	19	6	4
Manufacturers Hanover	3	50	17	5
Toronto-Dominion Bank	2	37	18	11
Creditanstalt	1	7	7	12
Industrial Bank of Japan	1	68	68	15
Bank of Tokyo	1	65	65	11
Westpac	1	35	35	11
Allied Irish Bank	1	70	70	11
Banque Indosuez	1	4	4	16
Bank of Nova Scotia	1	7	7	9
Credit Bank of Japan				12
Dai-Ichi				[illegible]
Credit Lyonnais				[illegible]
Fuji Bank				[illegible]
Nippon Credit				[illegible]
Bank of Switzerland				6
Sumitomo				[illegible]
Société Générale				[illegible]
Others/no longer active/none not known/(duplication)	46	700		
	426	14,817	34	

Qualification: in £10 million plus deals, 3 deals arranged or 5 investments made. Source: KPMG Corporate Finance

Analysis of gearing of UK MBOs over £10m

Period	Total funding £m	Equity £m	Mezzanine £m	Debt £m	Gearing	Mezzanine (% of total)
4 years to						
Dec-84	857	370	0	487	1.3	0
Dec-88	9,069	2,538	706	5,825	2.8	[illegible]
5 months to						
Jun-89	1,705	430	158	1,117	[illegible]	[illegible]
Dec-89	4,146	596	708	2,842	5.9	17
Jun-90	1,258	288	151	819	5.4	12
Dec-90	780	263	63	454	[illegible]	[illegible]
Jun-91	700	324	30	346	1.2	[illegible]
Dec-91	1,180	432	102	646	1.7	[illegible]
Jun-92	1,060	419	64	577	1.5	[illegible]
Dec-92	1,259	584	34	641	1.2	[illegible]
1993*	1,631	714	54	863	1.5	[illegible]
Total	23,845	6,950	2,088	14,617	2.4	[illegible]

*To date. Source: KPMG Corporate Finance

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MANAGEMENT BUY-OUTS 6

Larger management buy-outs 1988/1993 (total funding £m)

£m	1988	1989	1990	1991	1992	1993 (to date)
9 - 25	Kirklees Chemicals (10) Radstone Tech (10) Celebrity CP (10) National Express (10) Lowfield (11) Burlington Int (12) Motor World (13) *Burn Stewart (13) AMG Inds (13) Harrap Publishing (13) *Autoclenz (13) *Clairmont (14) Grand Transport Systems (14) Lowndes Lambert (16) Grampian CF (18) Peerless (18) Maccess II (18) ABI Caravans (20) John Perring (21) *Welland Homes (21) Travellers Fare (21) *Europeah Brands (21) Meteor (22) Yorkshire Rider (23)	Busways (10) Citylab (10) Rosenthal (10) Fine Art Wallcoverings (10) *Range Valley (11) *Abacus (11) Seckers Silks (11) Coin Industries (11) *Maison Caurette (11) Lancashire Enterprises (11) *Haigh Castle (12) Golden West Foods (13) *Severn (13) Tallent Eng (13) Horlicks Farms & Dairies (13) *Valor Stoves (14) *Country Casuals (14) Country Holidays (14) BREL (14) Eurovein (14) *Hill Leigh (15) May Gurney (15) *British Air Ferries (15) *Exide Batteries (16) Wilcomatic (17) Guest CD (17) Godiva (17) *Britannia Data Mgt (18) Barbour Campbell (19) Mercado (20) Solicitors' Law Stationery Soc. (20) *ServiceTec (20) Harland & Wolff (21) Slade (21) *Thames Int (22) *Rubatex (22) *Hamleys (24)	Mercury SDS (10) Viscount Catering (10) Peter Cox (10) *Wilcox (10) Chemical Manuf. & Refin. (10) Morris Homes (10) Saith (10) *Fairmead (10) *Anglian Fast Food (10) SMT Omnibuses (10) Lambert Smith Hampton (10) Nyge CSE Aviation (10) *East Lancs Paper Mill (11) Eaton Williams (11) *Juliana Sound Services (11) Fogarty (12) Licensed Clothing (12) Camb. Capacitators (12) Premium Life (12) John Wilman (12) Artfresh (14) *Cannons (14) *Hermes (14) Teamreason (14) English Glass (15) *Lydiashoume (15) *Canonbury (15) *Betta Stores (16) Kosset Carpets (16) Macfarlan Smith (17) Goldcrest (17) Alexander Drew (19) Flexpack (20) Staffs Tableware (20) *Wimpy Restaurants (20) Toplis & Harding (21) WW (21) Saga (24) Batleys (24)	*Ambion Homes (10) Davenham (10) Pleasureworld (10) *Bianco (11) *Boythorpe (11) Amcliffe Homes (11) Samuel Banner (11) Games Workshop (11) *Wallace Int (12) Carpetland (12) *Drawlane (12) Gibson International (12) Lodge Care (13) Power Group International (13) *Bramall Dealerships (15) *Sitex Security Prods (16) Systems Reliability (16) *Eagle Taverns (17) Kingsgrange (17) *BrightReasons One (18) DRG Litho Supplies (23) PL Holdings (24)	*Audio & Vision Furniture (10) Sharelink (10e) Coolkeeragh Power (11) Dopra Group (11) Whitworth's Produce (11) Cascade Clubs (12) Daw Group (12) Prontaprint (12) Bolton Brady (13e) Edgemond Group (13) *CCA Stationery (14) Interactive Media Services (14) *Chamberlain Phipps Group (14) *Harrisons Industries (14) Astra Training Services (15e) Barrett Steels (15) Oudis Bytech (15) Hamlet International (16) Vymura International (16) Nova International (16) Mark Birkbeck (18) Inspectorate (18) MF Industrials (20) Nimbus Manufacturing (22) *Discovery Inns (23e) *RSA Advertising (23) Zotefoams (23) Fosters Menswear (24)	Inenco (10) Universal Ceramic Mater. (11) Aerospace Composite Tech (11) Crown Buckley (12) Westwind Air Bearings (12) Robison & Davidson (14e) Lowe Alpine (14) Douglas Concrete & Aggs (15) Radiodetection (15) Gold Crown Foods II (16) *Benjamin Priest (20e) *Maiden Outdoor Advert. (21) * Coin Controls (24)
25-50	Gooding (26) *FJC Lilley (27) Harveys Furnishings (28) Mono Pumps (29) Eurocamp (32) UK Shoe (36) Dwek (37) *Needwood (38) VF Int (39) Alma (40) Goldsmiths (40) Sheffield Forgemasters (42)	Elizabeth Shaw (25) Aspinal Curzon (25) AEC (28) *Beacon (29) Trinity (31) Bell Fruit (32) Fenchurch Insurance (32) *Court Cavendish (35) Norwich Corrugated (36) Britannia (36) Nottingham Group (37) MBS (41) Video Arts (44) Meco Int. (45) Healthcall (46) Illingworth Morris (48)	Keller (26) Hozelock (27) *Ravenhead (27) Roxboro (31) Appledore (31) *United News Shops II (33) Normand Motor (34) Utd Pressings & Fabric. (35) Inveresk (40) British School of Motoring (42) *Walter Alexander (42) *David Brown (46)	Babcock Prebon (25) *Lyric Hotels (26) *Bison Holdings (31) Conder Products (34) *Century Inns (34) Eurovein II (34) Blue Arrow Personnel (36) RPC Containers (37) Nelson Hurst (39) MediMedia (41)	Firsteel (26) Clyde Port (26) Swift Transport (26) Standard Fireworks (27) Atco Qualcast (28) British Technology (29) *Centric Pubs (29) Civil & Marine Slag Cement (29) *Merr Holdings (30e) International Transport (33) Holmwoods Group (33) Sycamore Taverns (35e) Medway Port (41) *Inspec Group (45) Salt Union (49)	Boulton & Paul (25) Strathclyde Buses (25e) *Hydron (27e) City Technology (28) Galliford Homes (30) Peverel (31) Victrex (32) Lombard Continental (32) British Int Helicopters (33) Leyland Trucks Manuf. (35e) Drake Holdings (29)
50-100	*Financial Ins (55) York Trailer (61) Glass Glover (62) EIP (66) ITC (70) *Lewis's (74) Palmer & Harvey (85) Response (97) IMS Lycrete (98)	MCD (52) Tycack (52) *Crockfords (53) United Carriers (55) Gill & Duffus (58) Kenwood (58) *Square Grip (65) Highland Participants (73) *James Neill (78) Strand VCI (88)	Hay Group (60) Fallowgrange (73) Really Useful (77) Anglian Windows (84)	*Enterprise Inns (56) West Midlands Travel (71) *Ushers (75) National Transcommunications (75) *RMS (95)	Kier Group (54) Aerostructures Hamble (64) *Unicorn Abrasives (68) Goldsborough Holdings (68) Sowglaze (62) *Teeside Holdings (63) Primary International (73) Caledonian Newspaper Publ'ng (94)	Leyland Daf Vans (62) Ashbourne Homes (59) *Multipart (58e) *Colas (72)
100-250	Invergordon (118) British Fuels (134) Hollis (146) Argus Press (207) Virgin (248)	Ryan (113) London Clubs (126) Maritime Transport Servs (155) MW Marshall (175) Charles Church (209)	Landhurst (156) Yardley/Lentheric (160) *Jarvis Hotels (216)	Brunner Mond (101) Taunton Cider (101) Data Sciences (103) Dewe (108) Field Packaging (121) Midlands Newspapers (134) Bristow Helicopters (200)	Budge RJ (103) Express Foods (116) Wellworth Supermarkets (128) Gaymer Group Europe (140)	Eurodollar (192) Thorn Lighting (200) McDonnell Douglas Info. (200e)
250+	*Cope Allman (265) BPCC (273) Bricom Inds (405) *Lowndes Queensway (450) Reedpack (605)	Allders (260) Magnet (667) *Gateway (2,375)	Del Monte Foods (258)		Gardner Merchant (402)	*BP Nutrition-Consumer Pd(273)

Larger management buy-outs are taken as those with total funding of over £10m (subject to allowance for inflation until 1988). UK MBOs include MBIs (indicated by an asterisk), but exclude leveraged acquisitions where the managers' stake is incidental, refinancings and UK funding of businesses with overseas head offices.
Source: KPMG Corporate Finance, 1 October 1993

How to stage a buy-out: Charles Batchelor offers guidance on the once-in-a-career exercise

Financiers favour the hands-on approach

Listed and unlisted MBOs over £10m

	Number Total	Number Listed	%	Value £m Total	Value £m Listed	%
1981-84	25	1	4	857	310	36
1985	23	2	9	869	70	8
1986	27	2	7	939	30	3
1987	33	4	12	2,753	480	17
1988	55	6	11	4,508	940	21
1989	71	12	17	5,851	3,780	65
1990	59	4	7	2,038	170	8
1991	44	1	2	1,880	20	1
1992	55	1	2	2,319	10	0
1993 (to date)	33	0	0	1,631	0	0
Total	425	33	8	23,645	5,810	25

Source: KPMG Corporate Finance

Attempting to buy your business at the same time as you are running the company makes for a demanding and exhausting time. Managers who stage a management buy-out can expect an apparently unending round of meetings and presentations, as they attempt to convince financiers that they are worth backing.

They may not even have the certainty that their employer is willing to sell the business to its management. And, while they are preparing their own offer, they may also be required to show other potential bidders round.

Since most managers only carry out one buy-out during their career, everything will be new to them. Managers responsible for running small divisions and subsidiaries may find themselves considering strategic and financial problems which have previously been dealt with by head office.

Fortunately, as buy-outs have become a more accepted part of the commercial world, there is no shortage of advisers who specialise in this area. But the problem then arises of choosing the most suitable accountant, lawyer or venture capitalist without running up large bills.

The first issue that has to be resolved is whether the business is up for sale. Some group managements are opposed to buy-outs on principle – they believe the buy-out team is in too privileged position in any negotiations. It is not unknown for managers who suggest a buy-out to be told to clear their desks.

Finding out if head office is ready to consider a sale can best be done by making an anonymous approach through an accountant or other business adviser. He, or she, should also be able to give an honest assessment of whether the business is suitable for a buy-out.

Financiers tend to like stable businesses in traditional sectors, with strongly positive cash flows to pay off the debt. They are less attracted to high-technology businesses with uncertain prospects in rapidly changing markets.

Advisers should be chosen for their experience in dealing with your type of business. Some venture capitalists specialise in particular sectors, but more commonly they differentiate themselves by the size of deal they back. Some are only interested in the larger transactions of £10m value or more. Others are quite happy to spend time on smaller deals. Increasingly, on the larger deals, the venture capitalists have been taking a lead role, putting a deal together and only then approaching management to take part.

It is important that the managers feel they can get on with their advisers on a personal level, because they can expect to spend many hours in meetings.

Professional advisers can act as a buffer between the managers and the vendor during negotiations. Many managers find it difficult adopt a dispassionate stance when dealing with the boss with whom they have worked for many years. They feel uneasy about pointing out the weaknesses of a business which they have been responsible for running.

A crucial document in the buy-out process is the business plan. Accountants can help to draw these up, but it is no use presenting a plan which has come out of someone else's computer. It must clearly be the work of the managers themselves.

Many venture capitalists are deluged with business plans, so it is important to keep it short and to the point. Over-elaborate plans, running into hundreds of pages, are unlikely to be read. Venture capitalists complain of business plans which calculate large numbers of future scenarios down to the last decimal point, but which neglect to include essential information about the business or the management team.

The plan should contain a short executive summary, probably no more than two pages, and put the detailed financial calculations into separate appendices.

The body of the plan should describe the background and recent history of the business; its products or services; and its markets and marketing strategy. The quality of the managers and their ability to work together as a team will be vital to the success of the buy-out, so detailed profiles of the management will be needed. On the financial side, there should be summaries of past and projected profit-and-loss accounts, balance sheets and cash flows.

In terms of management, the venture capitalist will be looking for a strong team leader with support from managers with a good mix of other skills. Marketing, production and financial expertise will normally be required. If an otherwise strong team lacks skills in a particular area, the venture capitalist may well suggest bringing in an outsider to fill the gap.

The financiers will be looking for a management that can take a hands-on approach to the problems, which are bound to arise once the business is independent. Managers who have grown too used to the support services provided by a large corporate headquarters may not do as well once they are on their own. Managers can expect to be called on to tackle a broader range of problems in a smaller, independent business.

Fund-raising involves a balancing act. The business must not be saddled with an impossible burden of debt at the outset. At the same time, there must be enough money to see the company through the early years without the need for a refinancing. The banks have become more cautious in their approach to buy-outs, and will not back plans requiring an unrealistic amount of debt.

Set against the total amounts which will be needed to finance a deal, the sums provided by management appear small. Individual managers can typically expect to be asked to provide between £25,000 and £50,000 of their own money. The point is that, for many managers, this represents a considerable financial commitment. It is enough to motivate them to work hard, but not too much so that they feel under excessive pressure.

Curious as it may seem, at the point when they are negotiating their independence, managers need to be thinking about how they might dispose of their business. Their financial backers will be looking for an "exit", either by means of a trade sale or a flotation, after a few years.

If the business does very well, the managers may be able to refinance the deal and buy out their backers, thus retaining full control themselves. But more likely outcomes are a stock market listing or a sale.

Managers must be prepared for the loss or limitation of their independence. But set against this is the prospect of considerable personal wealth if the business does well.

Estimate of total UK MBOs

	Number	Value (£m)	Average size (£m)
1980	100	40	0.4
1981	160	130	0.7
1982	200	550	2.8
1983	225	240	1.1
1984	200	270	1.4
1985	250	1,070	4.3
1986	300	1,300	4.3
1987	350	3,230	9.2
1988	400	5,070	12.7
1989	500	6,490	13.0
1990	550	2,840	5.2
1991	500	2,600	5.2
1992	520	3,040	5.8
1993 (to date)	390	2,190	5.6
TOTAL	4,660	29,060	6.2

Source: KPMG Corporate Finance

Case study: relaunched EuroDollar is number five in the world

Disposals lift turnaround prospects


Ready to go: an early market debut seems likely

In August, Mr Freddie Aldous finally bought the business he set up 20 years ago. Mr Aldous, EuroDollar's 64-year-old chairman, led an 11-strong management buy-out team, backed by Prudential Venture Managers, which acquired the vehicle rental business from TSB.

He had set up the Swan National car-hire business in January 1973 for his employer, UDT Industries, the credit finance company which was acquired by TSB in 1981. Swan National was relaunched in 1989 as EuroDollar, to reflect the company's growing international strategy, and now ranks as the fifth largest vehicle rental company in the world.

The sale was the latest in a string of disposals by TSB, reflecting its decision to concentrate on its core retail banking business. In July, TSB sold Swan National Leasing, its vehicle contract hire business, to Forward Trust, the leasing arm of Midland Bank for £182.5m, and the Swan National car dealerships to Lex Services for £44m

In the case of EuroDollar, Prudential Venture Managers, the arm of the Prudential which invests in unquoted companies, had been introduced to the deal early this year by the corporate finance division of Touche Ross, which was advising EuroDollar's management.

"We were competing against two other groups," said Mr Martin Clarke, a director of Prudential Venture managers which won the mandate in April after putting forward a proposal under which EuroDollar's management would retain a 40 per cent equity stake in the company.

Mr Clarke and the Prudential Venture Managers team spent the period between April and August in protracted negotiations with TSB which was advised by SG Warburg. "We had a willing vendor, but what they were most concerned to do was to get the deal and the price right," explains Mr Clarke.

The complexity stemmed from the fact that, on paper at least, EuroDollar was not a particularly attractive purchase. In its last half-year to March 31 1993, EuroDollar incurred a pre-tax loss of £7.9m, the result of a deterioration in trading conditions in foreign subsidiaries in Italy and France, part of the EuroDollar network in 27 countries, operating over 40,000 vehicles.

However the core EuroDollar UK business, which has 10 per cent of the UK market and is the largest provider of rental cars to the corporate sector in the UK, had continued to trade extremely profitably. Business clients account for more than 70 per cent of its turnover, and it has a fleet of 12,000 cars and 1,000 vans, operated from some 106 branches across Britain.

Under the terms of the £118m buy-out deal, TSB received sale proceeds of £59.9m, comprising cash of £22m for the net assets of EuroDollar which amounted to £20.4m on March 31, and £37.9m in respect of inter-company debt. The balance of £58.1m was used to repay existing company's debts.

Financing facilities totalling £192m were negotiated and arranged by Prudential Venture Managers, which holds a 20 per cent equity stake. The other equity investors, sharing a 40 per cent stake, were Charterhouse Development Capital, Electra Private Equity Partners and Morgan Grenfell Development Capital.

Both Mr Clarke, of Prudential Venture Managers, and Mr Norman Murray, deputy chief executive of Morgan Grenfell Development Capital, have joined the EuroDollar board.

In addition to the £61m in equity, which was used to finance the acquisition, provide working capital and discharge the borrowings of the foreign subsidiaries, Lombard North Central, Forward Trust, UDT and Gmac (General Motors Acceptance Corporation) provided £100m of leasing finance, and the National Westminster group provided £31m of bridging loan finance, mainly to acquire vehicles from TSB which are being sold and exchanged for leased vehicles enabling the bridging loan to be repaid.

As Mr Clarke notes, one particularly striking feature of the deal, which was the biggest management buy-out in the 1993 third quarter, is that the company has been unencumbered with conventional term debt from the outset.

Since the buy-out, the company has moved quickly to restructure its overseas operations and has already sold both of its loss-making subsidiaries in France an Italy. The new board is understood to have been particularly keen to sell the Italian business, which it had thought might have to be closed – at considerable expense and perhaps delay. In the event, Mr Clarke says EuroDollar has made a cash contribution to the new owner's rationalisation costs.

As a result, EuroDollar's turnaround prospects have been strengthened, and an early market debut, perhaps within 12 to 24 months, seems likely. EuroDollar's price tag could yet end up looking like a bargain.

Paul Taylor

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Esops are a convenient way to give shares to employees, says **Peter Carty**

'Something in it for you, too'

Widening employee share ownership during a buy-out, through an employee share ownership plan (Esop), is not a priority for most buy-out teams – which may seem surprising.

"It's much easier if you can go to the employees and say, 'Well, we've bought the company, but there's something in it for you'," says Mr Mark Anderson, director of Esop and buy-out specialists New Bridge Street Consultants. The Esop provides a convenient mechanism for share distribution to employees.

However, in the UK there are only 50 to 70 pure Esops, under which all employees are offered shares, according to the Esop Centre. Around 20 per cent were set up under buy-outs.

Under an Esop, an employee benefit trust (EBT) is set up. It buys equity with a loan guaranteed by the company. The allocation of shares can be deferred until a time when the management has its hands less full with the buy-out. Capital and interest payments on the loan by the company are tax deductible.

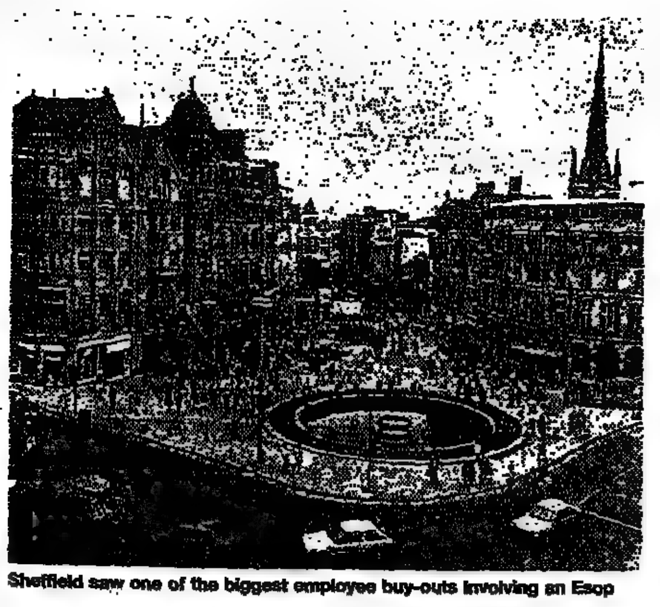
A profit-sharing trust (PST), in a form approved by the Inland Revenue, is often set up in tandem with the EBT, to distribute the shares. If employees hold the shares given to them by the trust for five years, income tax is not levied on them.

In the 1980s, high profile private-sector buy-out involved Esops, with MFI's MBO perhaps the best known. They are no longer so prominent.

"The Esop is an additional complication, and an MBO is already a very complicated transaction," explains Mr David Reid, tax partner and Esop specialist with solicitors Clifford Chance. Buy-outs have to be arranged in secrecy. "The Esop is essentially a further party to the transaction."

The business climate is unfavourable. "Esops often involve gearing, and people have cut down on that recently," says Mr Anderson, though he adds that this is not a problem where shares are offered to the workforce at full value.

It is necessary to look to the public sector to see Esops playing a more significant role in buy-outs. Service organisations with unionised workforces look on employee buy-outs as the preferred method of privatisation, and an Esop is often used to distribute shares. Port authority and bus service buy-out teams have used Esops, which are also likely to feature in rail privatisations.



Sheffield saw one of the biggest employee buy-outs involving an Esop

The biggest employee buy-out this year involving an Esop is believed by its managers to have been that of Mainline Partnership, a £50m-turnover, 880-bus company, which provides services for the Sheffield area. It was purchased from the Yorkshire Passenger Transport Authority by its 2,200 staff. Shares are being allocated on the basis of length of service.

Another large bus company employee buy-out with an Esop in tow is in the pipeline. Last month, Manchester Passenger Transport Authority nominated an employee team as the preferred purchaser for GM Buses South, a 2,000-employee, £50m-turnover company servicing the conurbation's southern half.

"There will be an Esop," confirms the leader of the buy-out team and managing director designate, Mr Peter Short. "We've been looking at a structure in outline that would involve both an EBT and a profit-sharing trust."

The ownership structure is still being discussed with funding institutions, but the aim is clear. "The hope is that the employees will hold approaching, if not actually, 51 per cent," says Mr Short. The deal should be concluded by the end of the year.

Quadron Services is distributing shares to its 400 employees. Based in Weston-super-Mare, the £11m-plus turnover company was born this autumn out of an employee buy-out of Woodspring district council's contract services arm. It is involved in cleansing, grounds maintenance, building, leisure and catering services.

A PST was not set up. The company is prepared to meet the relatively small tax liability arising on the shares on its employees' behalf. "It's administratively easier to do it that way, given the amounts involved," explains Mr Robin Blagburn, senior corporate finance manager at Unity Trust Bank. The bank often advises trade unions in privatisation buy-outs.

Communicating the potential benefits to the workforce has not been easy. Five trade unions were involved in the buy-out negotiations. "EBTs, Esops in themselves are complicated devices," says Mr Mike Martin, buy-out team leader and managing director.

No one group has overall control of the company. The largest portion of equity, 45 per cent, will go to the employees, while management gets 30 per cent and funding institutions the remainder.

Some of the venture capitalists approached were not enthusiastic about the size of the employees' stake. "They were interested in the concept, but not perhaps to the degree that we were interested in pursuing it," says Mr Martin.

The workers will have to purchase most of their allocation. "We want everyone to be a stakeholder," says Mr Martin. "We also want them to be dipping into their own pockets, because we think that means something." The size of the stake on offer to each employee is between £200 and £6,000 worth of shares.

Mr Martin stresses that it is too early to see whether the new ownership structure will be successful. He is mindful of problems with other deals, including the outcome of last year's £31m Medway Ports buy-out.

In September, a year and a half after the deal and in a more promising economic environment, the company was sold to Mersey Docks and Harbour Board. It viewed Medway as being of strategic importance and paid £104m. Three hundred dockers, who had left the company after restructuring, lost out on the bonanza, receiving £2.50 for their shares against the £37.25 they fetched nine months later. Mr Martin says that Quadron will take measures to avoid a similar situation as far as possible, including revaluation of shares at six-monthly intervals.

Esops might be more popular for buy-out teams if reforms took place. Their rarity is due to the unsatisfactory nature of available structures, according to Ms Susie Hughes, director of the Esop Centre. Case-law Esops are, in theory, open to challenge by the Inland Revenue. Problems with the 1989 Finance Act's Esop include its requirement that a majority of trustees be non-director employees. The Esop Centre hopes the government will make the statutory Esop more user-friendly.

Case study: how Stead & Simpson trod the survival route

Suitable shoes for a Bimbo

Peter Gee, managing director of the traditional family shoe retailer, Stead & Simpson, has put his career on the line for a Bimbo – and the board is delighted.

The Bimbo in question may well have saved the 160-year-old company from extinction. It is insider speak for a management buy-in/buy-out, which involves both existing and outside managers.

S&S resorted to the transaction earlier this year, when it became apparent that this was the only way to survive. Four years under the ownership of property group Clayform Properties had squeezed both cash and investment at S&S.

"We were looking at a blank wall," says Mr Gee, whose family has been in the business since it was founded in 1834.

S&S's story in recent years makes unhappy reading. After years of independence as a solid, if somewhat dull company, Stead fell into the hands of aggressive developer Clayform Properties in 1989. Clayform was particularly attracted to S&S's 110 freehold high street properties.

Almost overnight, however, the property market collapsed. Clayform forced S&S to enter into a series of sale-and-leaseback transactions, which provided instant cash for the parent, but left the footwear retailer exposed to the volatile rental market.

When recession set in the following year, S&S found investment in its own business virtually impossible.

It was at this stage that Mr Gee, and Mr Martin Brayshaw, the finance director who came to S&S with the takeover, realised that the retailer had to escape from Clayform's shadow to survive.

In early 1992, they began to investigate the possibility of a management buy-out. By August they had a business plan and had recruited a team including a former British Shoe director to strengthen the merchandising division.

There was only one problem. The oppressed retail sector had fallen heavily out of favour with venture capitalists.

Sticking to their last (from the left): Peter Gee, Kenneth Bartle and Martin Brayshaw

S&S had several characteristics which made it unattractive to potential funders. First, it had been making increasingly heavy losses for three years. S&S would also need to invest in its business, with the return not immediately apparent. The lead time – the period between the design and sale of a product – is particularly long in the shoe industry.

Finally, S&S needed to be freed completely from the worries of funding debt, so it could focus on its products and presentation.

The company was attractive for several reasons: a well-known brand name and reputation for value; focus on less fashion-conscious market towns; and strong administrative and financial controls

Messrs Gee and Brayshaw found little sympathy for their plight with potential City financiers.

"They were chiefly looking at a company where they felt they could hold the sales line and cut out a load of costs to get profits," says Mr Gee. "But we had cut and cut costs as part of Clayform." S&S could cut no further. Instead, "what we had to do was drive sales forward."

Finally at the end of last year, S&S was introduced to venture capitalist Apax. Here, almost unbelievably, S&S found ready listeners.

Apax had been on the lookout for a retailing investment. "Our view was that it was a good time to go back into the retail sector, the shoe sector in particular," says Mr Cyril Freedman, of Apax. After years of bloodletting, the UK shoe industry was beginning to show some signs of life.

S&S was attractive for several reasons: the well-known brand name and reputation for value; a focus on less fashion-conscious market towns; and strong administrative and financial controls.

However, there remained the fact that S&S's unusual needs made it something of a gamble. For Apax, the only way to reduce the risk was to add new management and demand a greater equity stake, along with a higher than normal degree of financial commitment from the team. "It was very important that the people involved had a lot to lose and a lot to gain," says Mr Freedman.

Enter S&S's current chairman, Mr Ken Bartle, with retail experience, particularly in merchandising, covering Trueform, Freeman Hardy Willis and Lilywhite's. He replaced one of the original team, at Apax's request.

The revised management team was then asked to put up £500,000 to back Apax's £4m investment. Apax would get a 70 per cent stake in return.

Clayform, anxious to reduce its debt, sold the S&S business and £3.5m in borrowings for £1. Apax's investment was used to pay off the debt and clear the overdraft. By the middle of May, S&S was ready to start its new life with cash of £750,000 and banking and credit facilities of £1.75m.

Although these are still early days and cash is still tight, S&S's management is convinced the Bimbo has done its work. It has given S&S the headroom to focus on longer-term investment, while also dealing with the day-to-day battle in the high street. Apax and the management have even put up further funding for S&S to purchase 22 more retail outlets.

Apax, for its part, is looking to stay with S&S for at least three to four years. At that stage, the footwear retailer that fell for a Bimbo may well return to the market.

Peggy Hollinger

The accountants: when do interests conflict?

'The coffee machine may undermine Chinese walls'

Pressure is growing for reform of the rules governing conflicts of interest in corporate finance, as accountants muscle in on management buy-outs.

Increasing numbers of accountants recognise the tensions in acting for a range of different parties in a transaction. Yet so far, few of these concerns are reflected in any professional guidelines.

Mr Howard Leigh, managing director of Cavendish Corporate Finance, says: "Whoever is retained to sell a business should not be advising on buyers, and those who want to keep the audit of both should not advise either."

He points out that, if the auditors are asked to conduct due diligence, they will end up investigating their own files, which throws up a clear conflict of interest.

If they are advising the company on whether to accept an MBO and at what price, while also advising the MBO team and knowing how much money they will be willing to accept, then they are in a conflict.

The larger accountants traditionally brush off such criticism. They argue that such commentary is self-interest on the part of smaller firms and boutiques that are missing out on work going to the larger firms.

Certainly, Mr Andrew Pollock, of Rees Pollock, a London-based firm, admits that there is still prejudice by potential clients in favour of using the Big Six accounting firms on the basis of their reputation. "There is conservatism; the IBM factor is going to rule for ever. Clients go for safety," he says.

The big firms talk about Chinese walls, the use of different partners or different offices to conduct the different assignments, and other safeguards to prevent any conflict.

"We have a rule that if we do due diligence and the audit, we will use entirely separate teams," says Mr Neil Lerner, head of corporate finance at KPMG Peat Marwick. "Where both parties are clear about our role, we are happy to act on both sides. The most important thing for the finance houses is to ensure a steady flow of deals."

Leading accountants	Number of deals
KPMG Peat Marwick	145
Coopers & Lybrand	85
Price Waterhouse	63
Touche Ross	52
Ernst & Young	45
Arthur Andersen	38
Others, none, not known (duplication)	(3)
Total	425

Qualification: acted in £10m-plus deals. Source: KPMG Corporate Finance

However, Mr Leigh says: "The partners meet and talk at the coffee machine. You should not advise in a situation where you end up face to face with yourselves." He says concern over potential profit-sharing, or the risks of litigation if things go wrong, acts as an incentive for partners – who are all equity-holders in the same firm – to share information, too.

These are not purely theoretical concerns. "Everyone denies it happens, but it does,"

> The larger accountants brush off criticism as self-interest on the part of smaller firms and boutiques, who are missing out on work

says Mr Leigh. He highlights the case of a deal with six parties, each represented by a partner from the same firm. "They knew there was a problem, but they wouldn't stand down. Things had gone too far."

Some of the larger firms are also changing. Mr Ian Krieger, head of buy-outs at Arthur Andersen, says: "We have a policy that, if advising management, we won't do the due diligence. We don't feel comfortable otherwise. But we're in a minority. I think there is a need for new rules. Until that happens, people are going to work on both sides of transactions."

A second concern is the growth in contingency fees. "There is a lot of ambiguity," says Mr Leigh. "People huff and puff about bonuses or premiums on the audit fee." He says there should not be any discount or contingency element in the audit fee or investigation work.

That issue is reflected in current ethical rules for accountants, which outlaw contingency fees on activities where a professional opinion on financial information is required.

Mr Jock Worsley, chairman of the chartered accountants' joint ethics committee, says there are also plans to introduce draft new rules early next year. These would recommend greater transparency in fee structures, and outlaw any contingency element linked to the audit or other professional opinion on financial information.

But he says there are no plans yet for any wider rules that would limit the potential conflicts of an accountant acting on both – or several – sides in an MBO transaction.

Meanwhile, there seems to be plenty of money available for MBOs, but a frustrating lack of deals. Howard Leigh says: "Staff in venture capital houses have been doing less, because deals have collapsed and they are now subjecting them to more scrutiny. But they want to get the deals out before the end of the year."

Ian Krieger says: "There's a lot of equity money around. The funds are plentiful, but there are not an awful lot of deals around. But business is pretty good. In the last year, we've been quite lucky and our deals have come to fruition. It's the luck of the draw."

And Neil Lerner adds: "I think everybody who is honest would admit that 1993 has been difficult. We have had a buoyant year in privatisation and mergers and acquisitions. The only disappointing area has been MBOs."

Andrew Jack

The lawyers: 'no hay, no pay'

Living with the fees squeeze

Management buy-out lawyers have had a tough time recently. The recession has changed the market-place. Clients now exert greater influence on the legal services they purchase and on what those services cost. Lawyers are unhappy.

Stiff competition among law firms for the MBO work that was around in the recession gave both management teams and financial institutions the whip hand in negotiating fee levels.

Many deals are now done on a contingent basis. If the deal aborts, the lawyers don't get paid – or, as John Kitching, of Lovell White Durrant, puts it: "No hay, no pay."

"It's very difficult", says Tony Keal, of Allen & Overy. "If a deal collapses, no one wants to bear the cost, because no one is making a return. The management team can't bear the costs, venture capitalists don't want to, and the banks don't see why they should. The result is the lawyers end up carrying the cost."

Perhaps this is a reaction to perceived overcharging in the past, he says. But he warns that there is a danger of it going too far. Fees have been pushed down to such an extent that it is starting to affect the quantity of due-diligence work that professional advisers can afford to do. Whether that will have some impact on recoveries or failure rates in future is a big question, says Mr Keal.

There is also a danger that the pressure on all parties to ensure the deal gets done, so that the principals make a return and the advisers get paid, is such that it could lead to too much completion for completion's sake.

You could reach the stage where no one is asking whether this deal should really be done, or done in this way, he says.

Matthew Layton, of Clifford Chance, doesn't believe competition among law firms for MBO work has increased that much; especially for the larger buy-outs above £10m where, he says, there tend to be only a few firms that have the expertise to handle that size of transaction.

But he does accept that clients have become much more conscious of the fees issue. This has meant that law firms have had to work very hard at controlling costs, striving to come up with straightforward documentation which will simplify the negotiation process, and also trying to ensure that there is no duplication of effort among the advisers to the deal.

Bon appetit: London Underground's 28 staff dining suites are served by Gardner Merchant, subject of the biggest UK MBO of the 1990s. Lawyers hope that deal foretells a second helping of big buy-outs. Picture: Tom Stockill

There is an obvious overlap with the due-diligence work that accountants and lawyers do, for example, which has to be avoided, says Mr Layton.

The recession has also clearly had an effect on the way deals are likely to be structured in the foreseeable future. John Kitching, of Lovells, says that, faced with restructuring a number of the more complex deals put together during the boom period at the end of the 1980s, lawyers learnt the hard way whether their original documentation was any good or not.

Unscrambling and restructuring deals where the agreement of large syndicates of 20 to 30 banks is required has proved particularly stressful. But the positive side, says Mr Kitching, is that those who have slogged it out during the recession will have a better knowledge of what the market will and will not back, which they can use in the future.

Adam Greaves, of Gouldens, who has just advised on the restructuring of Maritime Transport Services, a £155m MBO which he worked on in 1989, confirms that the experience of unscrambling some of the more optimistically structured deals of the late 1980s will result in much simpler deals in future. The days of ratchets are gone, he says. The trend is towards simple equity share structures, so that if it works it works, but if it doesn't you can at least start again without the complexities of past deals.

All the lawyers are agreed, however, that the level of MBO activity has picked up over the past six to nine months. There have been a lot of flotations at the exit end and a lot of small MBOs, many financed without institutional money by so-called "business angels", says Adam Greaves.

Matthew Layton says there may have been a slight downturn in the actual number of new MBOs, but there is still plenty of activity because, although debt is harder to obtain than it was in the late 1980s, there is still a lot of equity money in the market looking for a suitable home.

Lawyers have become more proactive and creative in looking at new structures in recent years, partly because the lack of available debt forced them to find alternatives to standard senior debt financing, but also because vendors have become increasingly interested in retaining stakes in the buy-out vehicle. Some deals these days are structured more like joint ventures, he says.

Lower interest rates have been good for buy-outs, but they also mean there is less pressure on vendors to sell; and, as they don't want to sell at a low point in the market, they prefer to keep an equity stake in the joint venture. These deals are much more complex from a legal point of view, Mr Layton adds.

Tony Keal says he thinks the supply of senior debt has actually expanded again, particularly compared with six months ago. The evidence of that is the Gardner Merchant deal, he says. But he agrees that the structure of deals has changed.

"They are now much more conservatively structured. In the heyday of the late 1980s, deals were being structured with debt-to-equity ratios of 6:1; now 1 - 1.5:1 is the norm."

The unspoken hope of the MBO lawyers is that the Gardner Merchant deal represents the first of a second wave of bigger buy-outs. If that turns out to be the case, perhaps it will at last enable them to return to what they regard as more realistic rates for the job.

Robert Rice

Leading solicitors	Acting for equity/debt leader	Manager	Total
Clifford Chance	87	29	116
Ashurst Morris Crisp	46	13	59
Allen & Overy	39	11	50
3i Legal	41	0	41
Lovell White Durrant	27	7	34
Macfarlanes	23	8	31
Herbert Smith	20	9	29
S J Berwin	13	14	27
Alsop Wilkinson	10	16	26
Dickson Minto	12	13	25
Eversheds	6	19	25
Slaughter & May	10	14	24
Freshfields	19	3	22
Wilde Sapte	20	1	21
Turner Kenneth Brown	8	11	19
Norton Rose	11	7	18
Cameron Markby Hewitt	13	5	18
Nabarro Nathanson	8	8	16
Travers Smith Braithwaite	8	5	13
Wragge & Co	3	10	13
Dibb Lupton Broomhead	2	9	11
Simpson Curtis	2	9	11
Linklater & Paines	7	3	10
McGrigor Donald	4	5	9
McKenna	3	6	9
Osborne Clark	1	7	8
Pinsent	3	3	6
Simmons & Simmons	1	5	6
Taylor Joynson Garrett	1	4	5
Kimbell & Co	0	5	5
Addleshaw	1	4	5
Halliwell Landau	0	5	5
Dundas & Wilson	3	1	4
Berwin Leighton	2	2	4
Theodore Goddard	0	4	4
Walker Morris	1	3	4
Edge & Ellison	1	3	4
Bird Semple	3	1	4
Maclay Murray Spens	1	3	4
Other/None/Duplication	(35)	140	105
Total	425	425	850

Qualification: £10 million plus deals, acted in four or more. Source: KPMG Corporate Finance

The regions: **Ian Hamilton Fazey** assesses activity outside London

More deals transcend borders

The regional pattern of management buy-outs in the UK changed dramatically in 1993, with surges of activity in Scotland and two English regions – the south-east and the north-west – but it is probable that nothing much can be read into this.

There were sharp declines in share in south-west England, East Anglia and the north, and smaller ones in Yorkshire and Humberside, the West Midlands and the East Midlands, while Wales and Northern Ireland slightly improved their normal, if small, shares.

The figures, which relate to the first six months of the year, have been collected by the Centre for Management Buy-out Research, at Nottingham University. How significant they may be, however, is obscure.

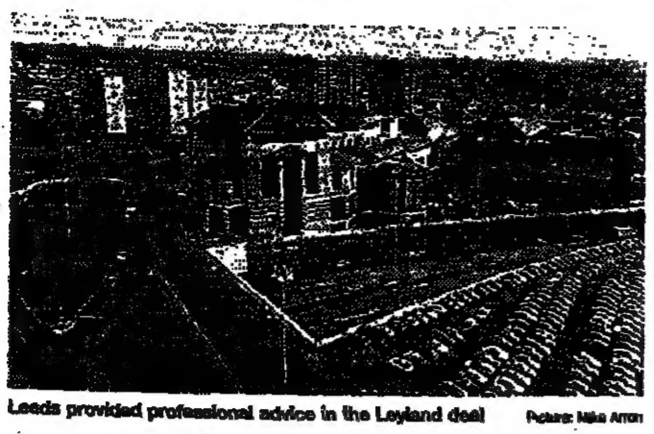
Dr Ken Robbie, research fellow in the centre, says this is because management buy-out and buy-in activity suffered a sharp decline in the first six months, recording the lowest first-half total since 1987. This means changes in regional shares may well not herald a new pattern.

Only 206 deals were completed in the first six months of the year – about 37 per cent down on the same period last year. The aggregate market value of £1.52bn fell about 10 per cent. Activity cannot therefore be seen as "normal". Individual deals – or taking longer than usual to conclude them in some areas – may have had a disproportionate effect.

The south-east shows how erratic the change in shares appears. After falling back to 32 per cent of the national market in 1992, it shot up to 39.3 per cent of the first-half deals of 1993 – the highest it has ever achieved.

The north-west, which is the second biggest UK economic region after the south-east, also picked up to a record share – 11.3 per cent, against 10.6 per cent in 1993. Scotland surged most, moving from an 8.8 per cent share to 13.6 per cent.

The biggest dives were in the south-west, which plunged from 8.1 per cent last year to 3.6 per cent in the first two quarters of 1993, and the north of England – the north-east and Cumbria – where the 1992 share of 5.2 per cent collapsed to only 1.8 per cent. East Anglia went from 4.7 per cent to 3.0 per cent.



Leeds provided professional advice in the Leyland deal. Picture: Mike Arron

Yorkshire and Humberside fell by only 0.2 percentage points to 7.7 per cent, the West Midlands by 0.5 points to 8.3 per cent and the East Midlands by 0.4 points to 6.6 per cent. Wales's share moved up slightly from 4 per cent to 4.2 per cent, as did Northern Ireland's, from 0.5 to 0.6 per cent.

What Dr Robbie has noticed, however, is an increasing number of deals involving people working across regional borders. The most notable example was the buy-out of Leyland Trucks from Daf (*see this page*). The plant is in Lancashire, but most of the professional advice came from corporate finance experts, lawyers and other professionals in Leeds, led by Coopers & Lybrand.

This is different from before. The rise of regional financial centres such as Manchester, Leeds and Birmingham had seen each regional capital keeping deals within the region – and the professional fees generated very much to itself.

The reduction in general levels of activity is one reason why there may now be some "poaching" in neighbouring regions.

Another is rationalisation within professional firms, with a few top consultants operating on a super-regional basis – covering the whole of the north, say, from Manchester or Leeds – but drafting in local reinforcements when deals move into the final stages of processing.

At the other end of the scale, polarisation of financial and professional services into regional capitals can rebound.

Some companies on Merseyside, for example, resent having to go Manchester for advice. Grant Thornton, the accountancy firm, has therefore put a substantial corporate finance resource into Liverpool, headed by Mr Amin Amiri.

Some advisers are sceptical about the management buy-out market anyway. Mr Lindsay Forbes, director of the British Linen Bank – the merchant arm of the Bank of Scotland – in Manchester, thinks most have been nothing special.

There were many of them in the regions, because of the way many national companies bought subsidiary companies in the 1980s and spread their branch factories around the country. When they had to rationalise, they started lopping in the regions.

Moreover, many of the companies were bought cheaply by their managements from divesting parents which were anxious to be rid of them. They have not had to do much to perform well enough for backers to look to flotation around now to realise their investments.

Mr Forbes says that there remains a shortage of good deals, partly because there are now fewer motivated vendors, but more importantly because there is a perpetual shortage of good managers who can triumph when there is not much general scope for improvement.

A mediocre management can hide its deficiencies when there is only slight economic upturn if price-to-earnings ratios take a quantum leap from a low base. If the price of a buy-out was five times earnings three years ago and it can be floated at 15 times much higher earnings now, everyone makes a great of deal of money.

But a company that costs 12 times earnings now, in an improving economic climate, will probably have to float or be sold at more than 20 times earnings to achieve similar gains. This will require very good management, and this is in shorter supply than deals.

"There's a lot of money looking for a quality home – and not enough quality homes," says Mr Steven Hartley, Manchester corporate finance partner of Stoy Hayward, the accountants, summing up the current regional MBO market.

In spite of this, Stoys in Manchester has been lead adviser in several MBOs this year, including M&I Materials, Palletower, Armourshield, Sondhi Kellar and Lorco Hygiene, and one MBI – Xenon Holdings.

Mr Tony Hyams, regional director of Barclays Development Capital, also remains bullish. He thinks one reason why the north-west has improved its national share this year is because the financial and professional services sector has developed so strongly in Manchester.

"Over the past few years we have seen a discernible trend for the money to move where the industry is. There is also an increasing preference in industry to deal with local advisers wherever possible.

"Meanwhile, the cautious approach of many quoted companies and trade buyers towards acquisition often leaves the existing management in a strong position as potential purchasers.

"Those choosing the MBO route will find plentiful funds in the regions, not only from venture capitalists, but also from banks which have taken far less of a battering in the north than the south," Mr Hyams added.

Case study: Leyland Trucks defies the recession

Risen from the ashes

When Dutch commercial vehicle maker DAF collapsed at the beginning of this year, receivers in both the Netherlands and the UK found themselves picking up a bewildering array of pieces.

But their underlying resolve, to find solutions which would keep as much as possible of the business as going concerns, paid off.

The group has been split up, with several different owners and substantial refinancing. But workforces have been retained – though they are much shrunken – and trucks are continuing to come from assembly lines in Holland, Belgium and Leyland, Lancashire, with vans still being made at Washwood Heath, near Birmingham.

It nevertheless took several months to pull together the management buy-out led by Mr John Gilchrist at the Leyland truck manufacturing plant, once the headquarters of UK state-owned Leyland Vehicles which DAF effectively took over in 1987.

That potential backers were not falling over themselves to come forward is not surprising, for what is now Leyland Trucks Manufacturing is operating in markets which have been undergoing one of their most savage recessions since the second world war. In some Continental regions, its end is still nowhere in sight.

In leading the buy-out, Mr Gilchrist, who had been managing director of Leyland DAF, the UK subsidiary of the collapsed group, finally found backing in the form of £5m of equity funding from Barclays Development Capital, with working capital finance provided by National Westminster Bank in a total package estimated at some £40m, although the total has never been formally disclosed.

By the time a deal was concluded with the receivers, Mr John Talbot and Mr Murdoch McKillop, of accountants Arthur Andersen, Leyland's workforce had been slashed from 2,200 to 700.

But a structure was also emerging from the ashes of the old group, which has provided Leyland Trucks Manufacturing with a "captive" customer, while also allowing it to pursue other possibilities for manufacturing vehicles for other truck companies.

The "captive" customer is DAF Trucks NV, formed in March with £370m in equity and loan backing from the Dutch and Flemish regional governments, banks and institutional investors, and which effectively represents a resurrection of the Dutch and Belgian truck manufacturing and distribution operations.

John Gilchrist maintains that Leyland is now a lower cost plant per vehicle than any of its rivals

Mr Gilchrist's company has signed a long-term contract, under which Leyland's truck output will continue to be sold through "new" DAF's continental outlets.

The company has signed a long-term contract, under which Leyland's truck output will continue to be sold through 'new' DAF's continental outlets

As part of what Mr McKillop describes as the biggest and most complex manufacturing receivership in the UK since the collapse of Rolls-Royce in the early 1970s, the rescued Dutch company also reached agreement with the UK receivers to acquire Leyland DAF Trucks, the "old" DAF's former UK marketing and sales arm in Thame, Oxfordshire.

Thus the Leyland company is also selling to a Dutch group back in control of the UK dealer network, and so providing the key market for the 45 series light trucks and some heavier models produced at Leyland.

The Leyland MBO was also made possible in part by the entire 230-acre site being acquired from the receivers by Lancashire Enterprises, the development arm of Lancashire county council, for development as a business and technology park – thus cutting costs for LTM, which is merely leasing the site of the assembly plant.

Apart from the slashed workforce, far-reaching reforms in working practices agreed with those who have kept their jobs, and a pay freeze agreed until the end of next year, the receivership has freed Mr Gilchrist and his colleagues from the debt burdens and restructuring and rationalisation costs, which did so much to drag down the Dutch group.

Indeed, Mr Gilchrist maintains that Leyland is now a lower cost plant per vehicle than any rival.

Six months after LTM's renaissance, the UK truck market is recovering sharply. Sales of trucks over 3.5 tonnes were up 14.4 per cent in the first 10 months of the year, and Leyland DAF is once more closing the gap to market leader Iveco Ford.

Mr Gilchrist has forecast a turnover of £140m and an output of about 8,000 trucks annually from 1995, and asserts that the company will be shown to be profitable when the results for the financial year to the coming December 31 are disclosed.

Mr Gilchrist's backers – he refuses to discuss the company's shareholding structure – still have some time to wait before the true strength of the company's renaissance can be judged. It is, for example, lacking the normally lucrative revenue stream which a manufacturer can expect from the sale of parts.

It derives only a royalty income from them, the parts distribution company having been the subject of a wholly separate management buy-in.

In the long term, substantial investments will be required in new products – one of the key factors which brought the old DAF group to its knees.

Mr Gilchrist is undeterred: "Challenging market circumstances overwhelmed our former parent company. But they have created here one of the leanest manufacturing operations in the European automotive industry."

John Griffiths

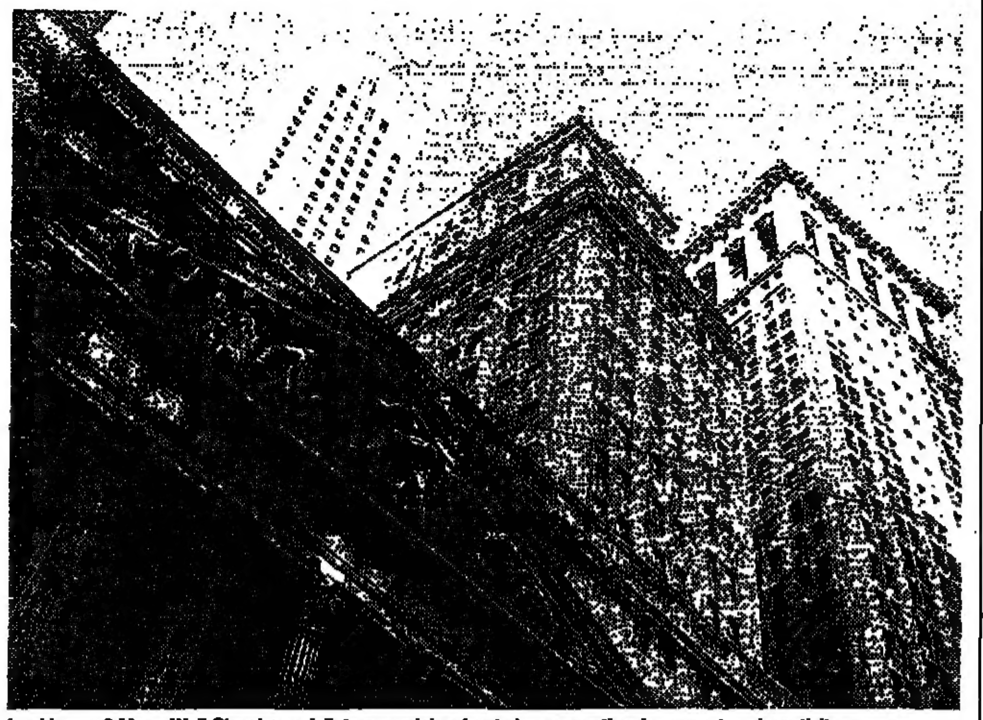
The US: **Patrick Harverson** analyses the fall in activity

Trampled by the bull

After the 1980s debt binge, the US management buy-out business is suffering a prolonged hangover. Buy-out activity since 1990 has been extremely light, and the business has slowed down even further this year.

According to Securities Data, the financial information services group, so far this year 131 management buy-out deals have been announced, worth a total value of $2.95bn. (The figure includes deals that have been unveiled but not yet completed, and the total runs up to November 16.)

This compares unfavourably with the totals for 1992, when 151 deals, worth $5.6bn, were announced, and 1991 (170 deals, worth $4.8bn). This year's total, however, could yet be improved if, as many investment bankers expect, the Kmart subsidiary Payless is taken private before the end of the year in a buy-out that could be worth as much as $1bn. Even with the Payless deal, the 1993 total is still meagre by comparison with the late 1980s, the heyday of the MBO business. In 1989, 296 MBO deals, worth $34.4bn, were announced, and in 1988 – the peak of the boom – 294 management buy-outs worth an astonishing $84.5bn were announced.



Looking up? Many Wall Street specialists are raising funds in preparation for an upturn in activity

Various factors have been behind the downturn in the MBO market. They include:

- The collapse of many of the big leveraged buy-outs of the 1980s scared many potential investors away, possibly for good.
- Financing has dried up, although banks are now back in the market, albeit with considerable caution.
- Some of the tax loopholes of a decade ago, which made breaking up a company after a buy-out so attractive, have been closed.
- The roaring bull market in equities has made it much more profitable for companies seeking value to sell their stock to the public, rather than take it private in a buy-out. And the rise in stock prices has valued companies so highly, that they are simply too expensive for management or buy-out boutiques to consider acquiring.

As one corporate finance executive at a top Wall Street firm explains: "You can't really do buy-outs at these prices. [The high valuations] mean that sponsors have to put in a lot more common stock, and the returns, and the deals the management group gets, are less juicy. There is a lot less incentive for everyone to pursue buy-outs now."

The result has been a sharp drop-off in activity, not just measured by volume, but also in terms of the size of deals announced. Last year, the biggest MBO, the Kohlberg Kravis Roberts-led purchase of American Reinsurance from Aetna Life & Casualty, was worth $1.4bn.

In contrast, the largest deal so far this year has been the $425m acquisition of Purina Mills, British Petroleum's animal-feed subsidiary. Purina was bought for cash by its management with the help of the Sterling Group, a private investment group from Houston, Texas.

After the Purina deal, the next largest transactions were two buy-outs valued at $300m: one of General Motors' Allison Gas Turbine Division; the other of Du Pont's weapons manufacturer, Remington Arms.

Both deals were put together by the firm of Clayton Dubilier & Rice. While many of the bigger name boutiques, like Wasserstein Perella (now minus the Perella), Kohlberg Kravis Roberts and Forstmann Little, have kept a relatively low profile, Clayton Dubilier has probably been the busiest buy-out boutique this year.

The firm has kept itself active by focusing on buying smaller companies that have been struggling to make a contribution to a much larger parent. In the case of GM's Allison and Du Pont's Remington, Clayton Dubilier found two companies which the firm believed would be better off separated from their parent group.

This search for the smaller deals highlights a recent trend. As Mr Jack Levy, managing director and co-head of mergers and acquisitions at Merrill Lynch, puts it: "More often than not, the kind of buy-outs which are available today are subsidiaries of private companies, private companies, and the very occasional smaller public company. I can't think of a large public company which has said in 1993: 'I want to go private.'"

Yet it would be wrong to suggest that the majority of buy-out specialists are sitting around twiddling their thumbs. Many are taking the opportunity to raise new funds to prepare for an upturn in activity, possibly when the boom in public markets is over. Mr Levy says: "Things are rather quiet for buy-out groups, but they are by no means standing still. A number of groups are raising money, and are preoccupied with getting refuelled for another round of transactions."

Whether the next round of deals will justify the preparation remains to be seen. One investment banker at a major firm is doubtful: "The market is pretty realistic about buy-outs. The business went from one where people were pretty rational about how much they paid, and the transaction structure, to a feeding frenzy. It led to disaster and losses. All of the defaults created a lot of fear in the market. Anyone who went through the defaults does not really want to do it again. We're never going to get back to where it was."

The recession in France has left a varied trail of damage in the leveraged buy-out business.

The worst of the economic downturn may be over, but caution remains the watchword for investors, banks and sellers. Some analysts estimate that total transactions are about 20 per cent down on two years ago, and that only four or five large banks are now active in the sector.

Average gearing for new leveraged deals, or debt-to-equity ratio, has fallen to between 1.5:1 and 1:1 from up to 5:1, according to Mr Dominique Peninon, director of Alpha Associates and president of the French Venture Capital Association (AFIC).

Some deals put together in the late 1980s are now shaky, even though the gearing never reached the spectacular heights of that in the US. Meanwhile, there has been a shake-out of operators in the field, with a number of bank subsidiaries having pulled out altogether.

LBO France, which is known as leader for large transactions, has concluded no deals this year, because asking prices are too high, said its chairman, Mr Gilles Cahen-Salvadore. "Prices must come down or French economic growth must pick up," he added.

Others take a brighter view. A team consisting of the Crédit Agricole subsidiary (Unicrédit), Banque Nationale de Paris and Lazard's Partenaires fund has closed three large leveraged management buy-outs this year, all with an expected return on equity of more than 20 per cent, said Mr Eric Licoys, general manager of Lazard Frères' Fonds Partenaires Gestion.

This is less than the 30 per cent achieved in the past, but it is still healthy because French long-term interest rates are now at a record low, he pointed out.

Overall, the sector has not suffered as much as it might have done. "Despite high real interest rates in the past few years, the recession and stricter bank lending terms, French leveraged buy-outs have held up reasonably well," added Marc Bradford, manager of Unicrédit's structured finance division.

The market for medium-sized companies is "still fundamentally expansionary," and many family enterprises will need a solution to handover problems in the next decade, commented Mr Charles Diehl, director of Barclays Capital Développement.

Ernest-Antoine Seillière announced new proposals by employers

France: the banks lose enthusiasm

Not as bad as it might have been

Prices in the middle range are now "more reasonable", because potential outlets are fewer. German and other European corporations that were looking for a foothold in France have other priorities, and the Paris second market for smaller stocks has been "a disappointment," Mr Diehl said.

The picture for the buy-out/buy-in balance is mixed. For some operators, buy-outs are still in the majority, while for others buy-ins have taken the lead. For Financière Saint Dominique, buy-ins are between 10 per cent and 20 per cent ahead, explained the firm's chairman Denis Mortier.

Whichever the case, perhaps more significant is the fact that tougher cash demands mean that it is the financiers rather than management who often end up controlling the enterprise.

One company that has carved out a niche in buy-ins, or rather in taking long-term minority stakes in family firms, is 3i. Each year, between 100 and 150 candidate bosses of about 40 years of age come forward. About 10 are selected, who then usually find the target companies themselves. Where 3i comes in is in putting the financial package together and in negotiating the deal, explained 3i director Mr Guy Zarzavatjian.

What has changed in the company's steady flow of deals is that the ranks of potential bosses have increased sharply over the past few years, as lay-offs because of corporate mergers and dwindling profits have hit more senior managers, Mr Zarzavatjian said. Another change is that only about 3,000 or 4,000 family firms are now healthy enough for 3i criteria, about half that of two years ago.

Even so, Barclays' Mr Diehl is "astonished by the number of very profitable medium-sized enterprises in France." This is because they have kept most wage increases at the rate of inflation or below, and have raised productivity.

On a positive note, there is plenty of venture capital around waiting for the right investment, and more spin-offs of healthy subsidiaries are expected to permit corporations to concentrate on core business. However, AFIC's Mr Peninon says that, instead of being sold directly, more firms could and should be spun-off in leveraged deals.

On the fiscal side, the industry may soon be given the flexibility it has been seeking in exoneration of capital gains tax on venture capital firms' and funds' investments, provided that more than 50 per cent are held in non-listed companies.

At the moment, this applies only if the target is the direct holding company of the operating subsidiary and holds less than 40 per cent of the voting rights. But this is rarely the case, as corporate holding structures are often two or three tiers deep, explained Mr Jean-François Court, chairman of AFIC's fiscal and legislation committee.

Hopes are now pinned on an amendment to the 1994 draft budget that will allow exoneration for gains on shares in any tier of the structure, provided that the 40 per cent rule is respected, he said.

A number of other technical aspects of venture capital operations should be ironed out soon. "This will not revolutionise the sector," but should promote buy-outs by making the venture capital business more "attractive and profitable," Mr Court added.

He welcomed proposals just issued by the CNPF, the employers' organisation, to promote the handover of companies. Part of this would be to relax the rules on staff buy-outs, which are known in France as RESs.

Announcing the proposals, CNPF vice-president Ernest-Antoine Seillière said that RES deals had lost their appeal, causing the market to come to a standstill.

Budget minister Nicolas Sarkozy will be looking at the whole question of companies changing hands when the government's 1995 budget is prepared, and may include measures then. The government has a continuing policy of encouraging small and medium-sized enterprises, in order to create jobs.

The MBO business may not be booming for all, but at least the recession seems to be bottoming out, and regulations look as though they are going in the right direction.

Barbara Casassus

Germany: **David Waller** reports increased business

Almost respectable

Jodag Mobilsysteme, based in Heidhöfe in the middle of the rolling hills of the Schwäbishe Alb, in the south-west German state of Baden-Würtemmberg, is typical of many *mittelstand*, or medium-sized companies.

Typical in that, in the 90 years since it was founded, it has evolved from being a craft business into a modern manufacturing company, like many companies in south Germany. It started life making wooden carts used for transporting hay and manure; now, it is one of Germany's largest makers of portable containers used inter alia as temporary offices and accommodation across much of eastern Germany.

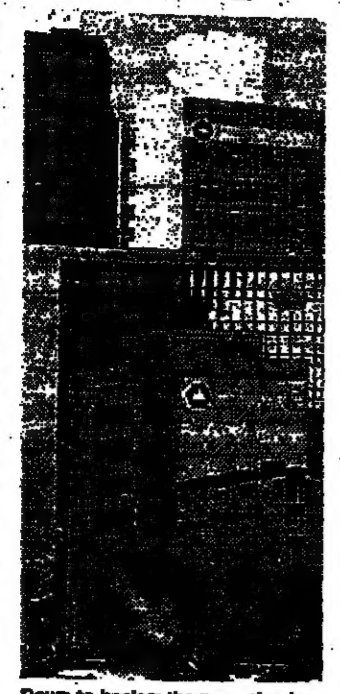
It was, until recently, a family-owned company. But the former owner reached retirement age without finding an obvious heir. In 1990, he turned 67 and realised that none of his five daughters, nor their husbands, was willing or able to take over the business.

The problem of management succession is common to many thousands of mittelstand companies: Jodag's solution was highly unusual. Mr Wolfgang Sander, an engineer in his mid-fifties with a history as a company doctor, a desire for a new challenge and no previous connection with the container manufacturer, bought himself a major stake in the company, backed by the German arm of 3i, the UK venture capital company, together with Candover and one domestic institution.

"It was very attractive for me to make such a move," reflected Sander recently, on the motivation behind the management buy-in. "It offered enormous opportunities for developing the business and my career. And, of course, there is the chance to make some money if all goes well."

Sander is still a rare breed in German industry – the experienced manager who is prepared to leave the security of a job in big business and willingly take the financial risks associated with a buy-out.

Rare, but not unique, as at least two other recent cases show. Mr Jürgen Grossmann, a main board director at the troubled Klöckner-Werke diversified steel group, teamed up earlier this year with Drüker & Co, a



Down to basics: the recession has brought new attitudes to Frankfurt

Frankfurt-based investment banking boutique, to buy the group's special steel subsidiary for a symbolic DM2 (79p).

In November, two businessmen bought LVH – a large German food production company – from the DG Bank, advised and backed by the Hamburg-based Thomas J.C.Matzen buy-out specialist and by CINVen in London. According to Mr Dirk Brandis, at Matzen, this is one of Germany's largest and most complicated buy-outs, with the move to new ownership linked with a new commercial strategy for the loss-making company.

Together with Jodag, these transactions illustrate forces which are leading to increased buy-out and buy-in business in Germany. The volume of such deals is far from being enormous – indeed, advisers consider themselves lucky if they put together two or three deals a year. But in a market which has traditionally frowned on such transactions as an unpleasant intrusion of Anglo-American financial jiggery-pokery, there has been a perceptible pick-up in business opportunities within the last six months alone.

The ultimate cause of this is the German recession, which is hitting both large companies and mittelstand companies hard.

Germany's big, publicly quoted companies are virtually all conglomerates. Many are now under financial pressure, forcing management to think hard about strategic priorities. "Portfolio clarification" has become a priority: managers are realising that businesses will have to be sold in order to concentrate limited resources on newly-identified core businesses.

The idea of "focus" still has a revolutionary flavour for German corporates, and as yet it is only the more troubled companies – such as Klöckner Werke or FAG Kügelfischer – which are engaged in wide-ranging winnowing of their business portfolios. But analysts expect unbundling to gather favour through the 1990s, creating more opportunities for management buy-outs and buy-ins.

For the mittelstand, the problems are different: the downturn has merely served to exacerbate the difficulties of finding successors to the ageing owner-managers who built up their businesses in the aftermath of the war.

"Often management is the most logical successor," comments Siegfried Drüker, whose firm backed Mr Grossmann's buy-out from Klöckner-Werke. "A management buy-out is the obvious solution."

Without obvious successors within the existing management, there is scope for an outsider to take control by means of a buy-in. This is likely to become increasingly popular, given the reluctance of large German corporates to buy mittelstand companies at a time when recession in forcing them to slim down.

In the past the German banks and their investment affiliates may have acted as "buyer of last resort", but there is a tendency for banks to scale back their industrial holdings as they, too, focus on their core businesses. This leaves the field open to buy-out specialists and adventurous managers.

Eastern Europe, including former East Germany, is discussed on the next page

Italy: activity is low, says **David Lane**, but privatisation may bring opportunities

Managers deterred by the bottom line

Dormant, rather than extinct, is how Italian investment bankers see the buy-out and buy-in scene on their home ground. The number of transactions concluded over the past two years, and currently being negotiated, is low.

KPMG Peat Marwick's report on mergers and acquisitions in Italy shows that there were only eight MBOs and five MBIs last year, against aggregate totals of 15 in 1991 and 30 in 1990. And no improvement on 1992 is expected when the statistics are compiled for 1993.

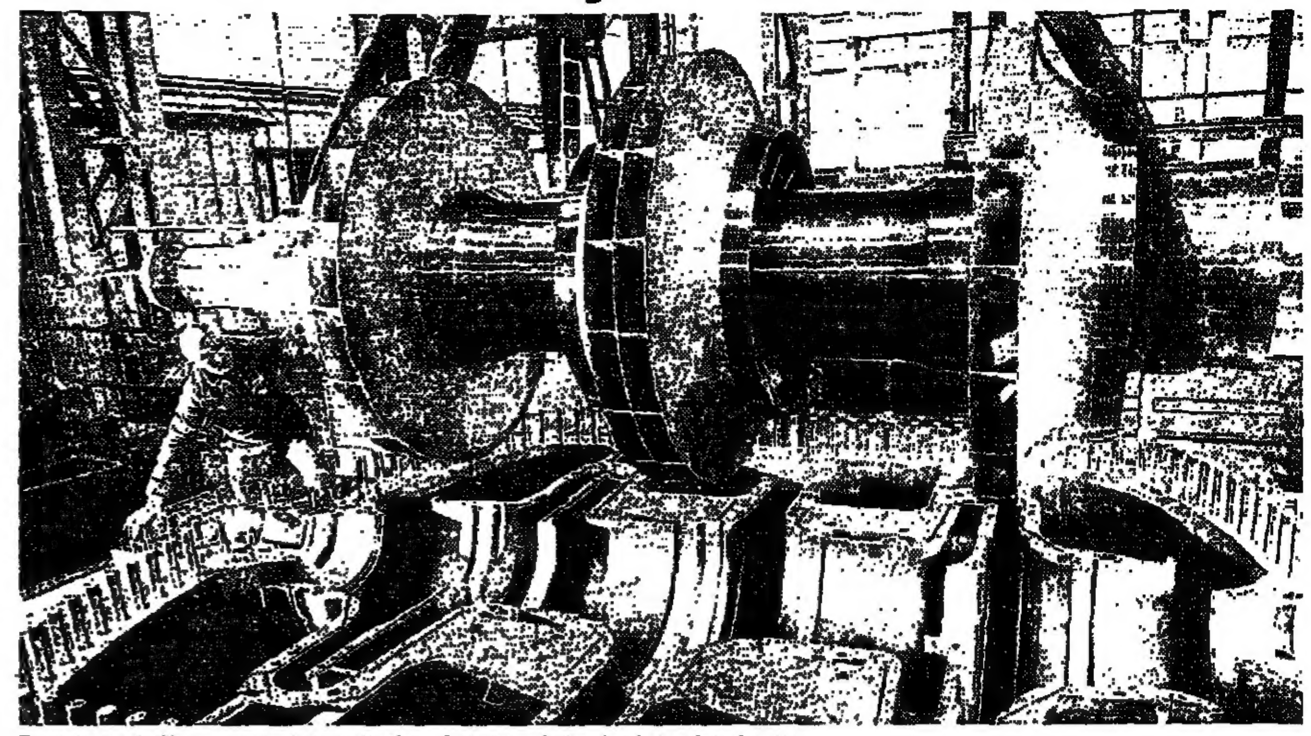
Stefano Tanzi, a partner in KPMG's corporate finance group, notes that the figures in his firm's report are limited to operations involving investment banks and funds. They exclude operations in which financial packages were put together by other intermediaries such as commercial banks.

Mr Tanzi believes these other intermediaries probably undertook a similar number of transactions last year as the investment banks and funds. However, it is possible that the number of buy-outs and buy-ins undertaken by other intermediaries has dropped even more sharply than the number in KPMG's "professional MBO market".

As the effects of the recession show through in company results, Italy's commercial banks are recording much higher levels of non-performing loans. Licking these wounds, they are becoming still less willing to examine buy-out and buy-in opportunities, as financing these entails higher risk than normal commercial lending.

Paolo Colonna, of Schroder Associati, a protagonist in Italian MBO business, criticises the behaviour of the country's commercial banks, describing them as "hysterical and irrational". He comments: "With banks being hyper-careful and cutting normal credit lines to business clients, it is not surprising that they are not financing MBOs."

But business fundamentals, like profits and financing costs, as much as reluctant banks and finance shortages, are the reason why deals have fallen from favour, regardless



Buy-out opportunities may arise after privatisation – for instance in the chemical and steel sectors

of the fact that, even before the 1991-1992 *downturn*, Italy had never featured among the leaders in this kind of operation. "Even attractive businesses became unattractive when the economy turned down," remarks Stefano Marsaglia, managing director of Rothschild Italia.

Corporate profits are suffering in the recession, and this makes repayment of debt difficult. Managers are less willing and less able to consider buying out their companies' owners when bottom lines are negative or showing only small profits.

Another deterrent is the cost of financing. Although real interest rates have dropped significantly from the peaks reached in summer and autumn 1992, they are still high. The prime rate recorded by the banking association ABI in September was 10.4 per cent, while the average interest charged on borrowings from banks was 12.9 per cent. With consumer price inflation at 4.5 per cent, the cost of money discourages buy-outs.

Reflecting the increasing aversion to indebtedness, the average debt-to-equity ratio of MBOs and MBIs completed in Italy last year was 1.9. This continued the steady decline from a level of about 4 that was recorded in 1989.

"Investors are tending to reduce the risks associated with leveraged acquisition operations in today's uncertain economic conditions. They are allowing companies higher levels of capitalisation," says Mr Tanzi. He notes that managers and investors have learnt from buy-outs that have gone bad due to debt overload.

What are the prospects for next year? Prices are clearly an important factor. Mr Marsaglia considers that they are still high, the combination of this and high interest rates making transactions expensive. "Next year should be more active, as the prospect of economic recovery will be closer, but it will still be difficult."

Italy's privatisation programme, which finally seems *to be getting under way*, may provide some opportunities. *Indeed*, before the recent break-up and sale of two divisions of the SME food, grocery retailing and catering group, controlled by the IRI state holding corporation, there was speculation that managers might become owners.

That this did not happen owes something to price. Against the financial muscle flexed by the likes of Nestlé and Unilever, managers are hard pushed to find the resources to make winning bids. "The price was too high, and the cash flow offered by the target companies too low. *Moreover, the restructuring* needed is too difficult for a managers' bid to be credible," remarks Mr Colonna, about the SME privatisations.

He is even more dismissive of the idea that the troubled state-owned ILVA steel corporation might be privatised through an MBO. He says that, apart from ILVA's heavy losses, the capital-intensive and cyclical nature of the steel business prevents an MBO from being feasible.

Opportunities are most likely to arise during post-privatisation re-structuring, as new owners sell activities that do not fit their business strategies. Italy's ENI state hydrocarbons holding corporation is thought to have several good targets in its chemicals and engineering sectors.

Indeed, re-structuring generally could lead to more deals. Under pressure to focus on core businesses, Italy's large private-sector groups are expected to shed non-strategic subsidiaries. This could give a boost to MBO and MBI transactions, and so also could the re-organisation of Italian assets by multi-nationals.

At Schroder Associati, Mr *Colonna is bullish*. "We are already seeing a faster tempo in the closing months of this year. Next year the number of transactions will be higher." Who will put up finance for this expected growth?

In an area where banks will continue to tread warily, buy-out funds will have a role. "Italy's image leads to difficulties with US investors, but Europeans do not have too many problems in understanding the situation and opportunities," says *Mr Colonna*. Having raised L95bn (£38.3m) five years ago, Schroders are now launching another fund of a similar size. About half has been raised, and investors are expected to subscribe a further L40bn-L50bn early next year. "It is a good time to buy," affirms Mr Colonna.

Corporate transactions are taking off in eastern Europe

Russia and Germany lead

The past year has seen an acceleration in regulated buy-out activity in a number of countries across central and eastern Europe (CEE).

The greatest numbers of deals are occurring in the Neue Länder (former East Germany) and Russia, though markedly different approaches are being used. By the end of June 1993, 2,364 buy-outs or buy-ins – 19 per cent of all privatisations in the German Neue Länder – had been conducted on the basis of a case-by-case negotiation of the transaction.

Buy-outs were, however, relatively small, accounting for only 4.3 per cent of the total purchase proceeds, 3 per cent of the total promised investment and 8.3 per cent of total promised jobs among all privatisations.

Though large numbers of deals are being processed, the Treuhandanstalt (THA), the German state privatisation agency, closely scrutinises each transaction in an attempt to ensure that buy-outs are placed on a sound financial footing, and that deals are completed which can be successfully restructured.

In terms of finance, problems with outstanding debts are resolved, venture capital introduced if deemed appropriate and use made of special equity support and investment grant schemes.

Buy-out deals may be delayed until the THA is satisfied that restructuring has taken place to make the enterprise commercially viable. In the case of Holzindustrie Bienenmuehle, for example, unrealistic management forecasts led to a reduction of the firm's activities to two product lines and 50 employees. The much delayed deal was completed at the beginning of this year, and six months later employment had increased by a fifth.

Where a buy-out is not a viable option, a number of related alternatives are available. A small number of buy-ins have been completed. At the end of December 1991, a programme to promote buy-ins was launched by the THA, but although 2,800 inquiries were received, a year later fewer than 20 deals had been completed.

Parallel to this programme, there have been numerous other attempts to effect buy-ins. A management partnership scheme has also recently been introduced, which involves incentivising incoming managers to turn round groups of underperforming enterprises in the same sector prior to privatisation. A similar scheme is being introduced in Poland.

In Russia, buy-outs are now taking place in large numbers, but without such close monitoring of the process. Indeed, it is becoming clear across CEE that, for privatisation to get under way, it is often necessary, in the absence of a complete legal framework, to progress with policy implementation with alternatives which are acceptable within the local context. For example, where ownership laws are not fully elaborated, long-term leases may be an acceptable means of enabling privatisation to progress.

In the absence of such a pragmatic approach, the whole process of regulated transformation is likely to grind to a halt, with managers still having the ability to dissipate state assets.

Two principal routes to effecting a buy-out in Russia are available. First, significant numbers of enterprises which were leased by their workers' collectives under the provisions of the 1989 leasing legislation are now exercising their option to buy-out the assets.

Second, and following the introduction of the Russian privatisation programme in 1992, buy-outs have been effected through the use of vouchers. The second of the three privatisation variants permitted under the legislation allows managers and employees to buy-out, at face value, 51 per cent of the shares of their enterprise through a closed subscription, and by using their own individual vouchers in payment. After the closed subscription, the remaining shares are offered to an open auction, in which management and employees can also participate. For example in the privatisation of the Bolshevik Biscuit factory, management and employees had obtained a total of 70 per cent of the shares at the end of this two-stage process.

Variants 1 and 3 of the law provide other means by which management and employees can obtain significant, but not majority, equity stakes. Up to September 1993, according to the Russian statistics bureau (Goskomstat), some 7,000 large and medium-sized enterprises, employing a total of 4m people, had been privatised under the Russian privatisation law, of which 80 per cent used variant 2.

Elsewhere in CEE, the volume of buy-outs has been less spectacular. Poland has so far seen most activity. By the end of May, 2,217 privatisations had taken place, of which 1,716 were through the "liquidation" route, within which 651 were buy-outs.

As in Russia, buy-outs of formerly leased enterprises are an important element of the privatisation programme in Ukraine. To the end of December 1992, plans were approved for the privatisation of 168 enterprises to workers' collectives, which had earlier concluded contracts on leasing with the option to buy.

In July, the state property fund of Romania announced that half of the 162 small enterprises in trade, food-processing, services and construction, which were to be privatised through worker-management buy-outs, had been sold. Other countries are effectively in the process of moving from pilot stages to mass implementation, or with actual large-scale implementation still being delayed in some countries because of continuing political problems.

As buy-outs become established, evidence is emerging of how they have fared. As of February, 30 buy-outs in the Neue Länder were in receivership. Some estimates suggest that up to half of the buy-outs will fail, while the THA considers that about 70 per cent of buy-outs will be successful in the medium term.

In Poland, a study by the Institute of Market Economies, in Gdansk, indicates that about half of buy-outs effected through lease agreements have trouble in paying their instalments. A survey of 1,300 buy-outs conducted by the federal ministry of economics in Germany, in 1992, showed that there had been insufficient consideration of the anticipated effects of the weakening economic situation, and that the main problem after buy-out was not a lack of equity capital but of know-how in the areas of corporate finance, marketing, management, planning and control, and rationalisation.

Elsewhere in CEE, access to finance is of particular importance for longer-term survival, since buy-outs may not involve an injection of capital to meet investment needs.

These observations suggest a pressing need to address post buy-out problems in terms of improving managerial skills and sources of finance, and highlight the continuing problem of the desperate need for – but current absence of – real entrepreneurs. However, approaches such as voucher schemes, which effectively involve the "give-away" of enterprises, while breaking through bureaucratic log-jams and enabling rapid decentralised privatisation to be achieved, may make it difficult to address these issues, as we make clear in a recent report*.

In particular, while there has been enthusiasm to embrace widespread managerial and employee share ownership, the importance of control exerted by institutions or commitments to service external finance, as in buy-outs in the west, has been played down. The absence of some such forms of outsider control mechanism may mean that, while privatisation meets fairness objectives, efficiency is not sufficiently enhanced. There may be little pressure to improve efficiency, as financing commitments are low and widespread employee ownership may reduce managers' ability to undertake restructuring, even if they aim to do so.

Finding individuals and institutions with the requisite monitoring skills is highly problematical. The private investment funds which are emerging may be driven by the need to achieve short-term improvements in dividend payments to their investments at the expense of long-term investment.

Such funds are increasingly making attractive offers to employees to buy their shares, as in the case of Bolshevik Biscuit where the private investment fund Alpha Capital, having obtained 12 per cent of shares at the time of the privatisation, subsequently contacted all employees offering to buy their shares at a price equivalent to four times the nominal value of a voucher.

Foreign firms may be reluctant to become involved, unless they obtain majority control, which management and employees are unwilling to cede.

Having resolved the problems of privatising vast numbers of enterprises, corporate governance issues are becoming the next major policy problem in transforming the countries of CEE into effective market economies. The need to address employees' expectations of the extent and timing of the gains from holding shares is likely to be an important issue in this process.

Report by **Mike Wright, Igor Filatotchev** and **Trevor Buck**, of the Centre for Management Buy-out Research, University of Nottingham

** Management and Employee Buy-outs in Central and Eastern Europe, EBRD/CEEPN Technical Note, published by the European Bank for Reconstruction and Development, 1993.*

The industrial wind is changing — Picture of St Petersburg: Tony Andrews

Hands off that Bimbo? **Charles Batchelor** compiles a buy-out-speak primer

Plums are tastier than lemons

Management buy-outs combine the expertise of the corporate financier with those of the venture capitalist, and the industry makes use of technical terms from both sectors.

Some of the more colourful terminology imported from the US by the venture capital community has been lost as the industry has become more established in Europe. But managers contemplating a buy-out may still be confused by some of the jargon.

Bimbo: A somewhat controversial term to describe a deal involving both existing and outside managers: a buy-in/management buy-out (or Bimbo). About half of all deals take this form.

Bought deal: When a deal maker provides all of the finance needed for a buy-out deal, and then sells on or syndicates part of the funding to other investors later. Done by the larger providers of finance when speed or confidentiality are particularly important for the deal to succeed.

Bridge financing: Short-term funding provided when a company is about to raise a new round of equity, or is about to go public.

Business plan: The document put together by managers to justify their application for finance. Should contain summaries of past and projected profit-and-loss accounts, balance sheets and cash flows. Also details of products and services, markets, future strategy, and profiles of the managers. A warning, however: don't get too carried away. Most financiers will not go beyond the two-page executive summary.

Caps, collars and cylinders: Clauses in buy-out deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. A safeguard against borrowing costs rising to the point where they endanger the company.

Such agreements usually have a limited life of one or two years. The longer the period of cover, the more expensive the collar or cap.

Carried interest: A stake, typically 20 per cent, taken in the investee company by the venture capital or buy-out fund managers. Can be in the form of options.

Deal flow: The rate at which investment propositions come to the deal-maker or financier. Many claim to select only one deal in 50, though deal-flow numbers are treated by some as a sort of virility symbol.

Development Capital: Later-stage finance for more established companies which are profitable or nearly profitable. Less risky generally than early stage finance.

Due diligence: Detailed analysis and appraisal of the background of the entrepreneur and his business plan.

Earn out: Either a formula for relating the final purchase price of a company to actual future earnings, or a means of encouraging management to perform by payment on the basis of future performance (*see also ratchet*).

Employee buy-out: A deal involving not just the top management but also all, or a large number of, the more junior employees of the organisation. The difficulty of involving large numbers of employees without disclosing a deal prematurely has meant that relatively few of these deals have been done. Some managers get round this by staging a buy-out and then involve other staff at a later stage.

Employee share ownership plan (Esop): A trust which is established to acquire shares in a company for subsequent allocation to employees over a number of years.

Exit: The point at which the financier sells his holding in the buy-out company, either through a trade sale to a larger company, by the management buying out the other investors to assume complete control, or by a stock market flotation. It is essential the managers and their financial backers agree from the outset on the exit strategy.

Gearing, or leverage: The ratio of debt to equity in a company's capital structure. Intermediate forms of capital, such as redeemable preference shares and convertible loans, can complicate the calculations and mean a variety of different ratios may be applied to the same company.

Hands on / hands off: The degree to which an investor in a buy-out becomes involved in its management. A hands-on investor would normally nominate a non-executive director to the board, and might commit some of its other executives to help out if the company ran into difficulties. Hands-off investors would have very little, or no, active involvement in the company.

Internal Rate of Return (IRR): Different investors work this out in different ways, but the term generally refers to annual compound rate of return to the investor over a given period. Returns normally include dividend distributions and profits from either disposals or a fair valuation of the buy-out company.

Junior debt: Unsecured loans which rank after secured or senior debt for repayment in the event of a default (*See also: Senior debt*).

Junk bonds: High yielding, unsecured debt used in US buy-outs. Since the debt is in the form of a bond certificate, it can be bought and sold more easily than the mezzanine loans (q.v.) used to finance UK buy-outs.

Lead investor: Venture capitalist or other deal-maker with the largest share in the syndicated investment. He usually initiates the deal, and takes a hands-on role on behalf of the other partners.

Lemons and Plums: Bad deals and good. Bad investments usually go wrong before the good ones produce a profit: the lemons ripen before the plums.

Leveraged buy-out: Similar to a management buy-out, though usually applied to US deals where the transaction will have been initiated by a financial group rather than the management. The name refers to the high level of borrowing which the company takes on, using the assets being purchased as leverage. When British buy-outs seemed to be going the way of their US counterparts, with large, highly speculative deals being put together by City financiers, the term started to be applied to UK buy-outs. Nowadays, the idea of high levels of leverage is a distant memory.

Living dead: Companies which are just about trading profitably but are unlikely to do really well. A slightly dated term used about investments the deal-makers prefer to forget.

Lock-out agreement: An agreement to give the buy-out team time to negotiate the purchase of their company free of pressure from other bidders.

Management buy-in: An offshoot of the management buy-out industry. The purchase of a business by one or more outside managers with the help of a group of financial backers. The term was applied indiscriminately in the late 1980s to any bid involving a well-known City figure, on the grounds that a buy-in sounded more constructive than the hostile takeovers they usually were. Buy-ins are now seen as being considerably riskier than buy-outs, because they involve an outside management team which does not know the company as well. Many deals are neither pure buy-ins nor buy-outs but bimbos (q.v.).

Management buy-out: The purchase of a business by its existing management with the help of a group of financial backers. The managers put up a relatively small amount of the total finance but usually gain a disproportionately large share of the equity. Buy-outs are funded largely by loans secured on the assets of the company itself.

Mezzanine finance: Loans, usually unsecured, which rank after secured or senior debt but before equity in the event of the company failing. To compensate for the greater risk, they typically carry interest one to three percentage points above secured loans, and often carry an equity "kicker" to give the lender a stake in the equity.

Newco: The buy-out is usually carried out through a newly created company normally referred to as Newco.

Preferred ordinary shares: Refers to the ordinary shares taken up by outside investors in a buy-out. They rank ahead of the plain ordinary shares owned by the management in terms of dividends and the pay-out in the event of a winding-up.

Ratchet: An incentive arrangement whereby the managers get a bigger share of the equity if the venture performs well. Sometimes managers forfeit shares if they do particularly badly (*see also Earn-out*).

Second-round financing: Sometimes needed to help buy-outs which have run short of funds. Or it may be a sign that the business has done well and is raising new money for further investments.

Senior debt: Secured debt which ranks first in terms of repayments in the event of a default (*See also: Junior debt*).

Slippage: This is what happens when the buy-out company starts to eat up more cash than expected, because development costs exceed budget or sales grow too slowly.

Syndicated investment: An investment which is too large and risky to be handled by one investor and which needs to be shared among several partners. Fewer deals are syndicated in present market conditions; while syndicates also involve fewer participants. This is partly because the smaller deals do not require so many players; but it also means that, if trouble arises, fewer people have to be consulted to sort out the mess.

Vendor finance: Finance provided by the vendor in the form of either a deferred payment or a retained minority stake in the bought-out company, usually in the form of loan notes. It allows the vendor to share in the profits of the company if it does well, and can also be used to boost the sale price, thereby impressing the vendor's shareholders.

Venture capitalist: Deal-maker who provides funds and advice to entrepreneurs, either starting a business from scratch or staging a management buy-out.